THE ECONOMIC BASES OF PEACE

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Chapter I

INTRODUCTION

This volume is a study of world economic conditions and is written in the summer of 1939. Like all other books, its argument rests on certain attitudes of the author.

First among them is the belief that most human beings are firmly convinced that wars should be eliminated. War is destructive of economic assets, of human life, and of those moral values which are widely accepted throughout the world. Wars bring no economic gain either to victor or to vanquished, as was convincingly demonstrated over twenty years ago by Sir Norman Angell in his greatly misunderstood volume, "The Great Illusion," and by almost countless other writers since that time. The World War with its tragic aftermath of suffering and bitterness has served to convince most remaining skeptics.

Second is the conviction that economic dislocations are among the causes of war. They are not the only causes. Racial feelings are involved, often in a curious fashion and even where actual

racial differences do not exist. Political ambitions, lust for power, a desire by leaders to distract popular attention from domestic troubles, contradictory philosophies, a spirit of nationalism with or without suitable foundations either political or economic—these are at least a few of the many forces that cause or encourage or intensify international conflict. Among the causes, however, are the economic. Probably no one can prove that they are the most important, but their significance is great. If economic strains were lessened, the possibilities of war would at least be reduced.

Third is a realization that we human beings are but to a slight extent rational. For the most part, we are creatures of habit and of emotion. It is not to be expected that our habits will be quickly altered or that our psychological reactions will suddenly become different merely because it is possible to present a logical argument for peace. Nevertheless, a reiteration of the economic causes of war and of the losses that war brings has some influence. If repeated often enough and forcefully enough, such statements should at least furnish a foundation for what are perhaps more effective appeals. Lip service to peace is almost universal. Yet large numbers of well-meaning persons are advocating just those public policies that make peace difficult or impossible. At the same time, others are unaware of the obstacles in the way and

a few seem still to believe that peace may be assured merely by wishing it.

Fourth to be mentioned is the importance of dealing with causes rather than with symptoms. During the World War it was easy to view Kaiser Wilhelm as the personification of all evil. At the beginning of the last century, Napoleon was likewise blamed by many as the cause of that great upheaval which we can now interpret as a violent but necessary readjustment of political and economic institutions. Professor Charles A. Beard has effectively emphasized this and related fallacies under the title, "The Devil Theory of War."

Instead of personifying our troubles in a Napoleon, a Kaiser Wilhelm, a Lenin, a Mussolini or a Hitler, it is often convenient, though misleading, to attack an institution or a symptom. Thoughtful students no longer consider that causal relations are simple, direct, and in only one direction. Relationships are complex and influences react upon each other. What seems to be and perhaps is primarily an effect may bring many repercussions and itself have a causal significance. Thus, great national armaments may increase the dangers of war and, to a degree, be a cause of war. This suggests disarmament, or at least a reduction of armaments, as a goal. But, although large military establishments may be among the causes of war, they are to a far greater extent an effect. Behind them and as an

explanation of them are a multitude of stresses and strains whose elimination, if possible, would do much to relieve international tension and encourage disarmament.

Fifth is a firm belief in the importance of the peaceful adjustment of international disputes and in the value of existing agencies for that purpose—including the World Court, the League of Nations, and many others. But coupled with this are two still stronger convictions. One is that such agencies have very definite limitations and that we must not demand of them more than they can possibly perform. The other (closely related) is that as they now exist they deal chiefly with disputes that have actually arisen and are concerning themselves only slightly and indirectly with the avoidance of disputes. It is a fine thing to adjust difficulties after they occur. It is a much finer, though much harder, task to prevent them.

Sixth, and last to be mentioned, is the extent of economic strain throughout the world even in times of peace. Wars are numerous and frequent and spectacular. At all times during war, but also between wars, there are acute hardships and intense suffering. Many of these could be averted or lessened by a better adjustment of international economic relations.

These introductory comments suggest a difficulty with the title of this volume. It is worded "The

Economic Bases of Peace" and is misleading in its implication that our sole concern is with those economic facts and forces which, properly treated, would prevent international military conflict. We might change it to "The Bases of Economic Peace," but this would have the unfortunate effect of diverting attention from one of our major concerns—the avoidance of war. Perhaps "The Economic Bases of Economic Peace" could be substituted but this, too, has obvious disadvantages. On the whole, the first wording seems the best.

Much has been written on the economic causes and consequences of war. This is an attempt to discuss the bases of peace—both military peace and economic peace.

CHAPTER II

THE DILEMMA STATED

Several years ago, the writer undertook an analysis of the world's economic dilemma.[1] As time has passed there is every reason to reaffirm the general thesis there presented. The dilemma described has not been solved but has been intensified. A restatement, with due reference to recent developments, is the purpose of this chapter.

There are two groups of economic forces operating today. One binds the world together; the other divides it into antagonistic areas. The first makes us profoundly dependent upon each other, the second separates us because there are certain particulars in which our interests are not harmonious.

In some of its features this situation is well known, but in others the difficulties are not clearly appreciated. Until the problem is envisaged as a whole, progress toward an effective solution is certain to be slow and will, perhaps, not occur at all. Statesmen and international lawyers need to allow more fully for economic facts and forces.

An illustration will make this clear. The Treaty of Versailles in 1919 sought to accomplish certain

[1] "The World's Economic Dilemma," New York, 1930.

political results. Among its provisions were those governing the payment of reparations. Together with the later agreements, it ignored the limitations recognized by all disinterested economists and Germany was ordered to pay impossibly large amounts. As a result, repeated reductions in the reparation schedules were found necessary and were effected, especially under the Dawes plan of 1924 and the Young plan of 1929. Then came the Hoover Moratorium in 1931 and finally the complete abandonment of all attempts at collection. Also, the other huge and complicated political claims arising out of the war, known as the intergovernmental debts, have disappeared with but slight exceptions. They are today a reality chiefly on the books of the Treasury Department of the United States. But the friction and ill will engendered by this attempt to do the impossible have added greatly to world distress and are at least a contributing factor in the world depression from which we are now suffering.

To what extent such economic facts and forces are a cause of war is by no means clear. Perhaps no one really knows the actual causes of war. Most discussions of the subject present political influences and alignments, while some attempt to depict the economic, financial, geographic, and other conditions that are at the basis of national antagonisms. Still others undertake to analyze the mental attitudes and the philosophical outlook of the

contending peoples. But dispassionate students must acknowledge that the real causes of war are not clearly revealed. We do not know why men fight.

Yet it is well worth while to discuss the economic conditions that make for war. It is certain that these economic influences are important even though we cannot fully isolate or measure them. They often affect the political activities of governments, and some writers even contend that they are the most general determinants of political action. Also they have an effect on the psychology of peoples and even on their philosophical outlook. The German saying "Man ist was er isst" may be an exaggeration, but food, drink, and environment at least aid in making us what we are and perhaps increase or decrease our combativeness. Certainly they determine the effectiveness with which peoples can wage war.

But there is a second reason for the economic analysis. Even though military conflicts are avoided, there are still economic conflicts which place the world under severe strain. Many optimists feel that our real interests are harmonious and that a full realization of this would lead us to economic cooperation rather than to economic struggle. Most writers, however, argue that there are many particulars in which our interests agree but many others in which they definitely clash. Thus em-

ployers and employees have much to gain from consulting each other's welfare. Employers will lose if they pay wages below the level necessary to secure an adequate effort by workers. Employees will lose rather than gain if they demand excessive pay for their exertions. Between these limits there is an area where interests are in real conflict.

This is quite generally appreciated in the discussion of domestic economic questions, but in the international field writers frequently assume that there is a real harmony of interests and that many of our troubles are due merely to our inability or our failure to grasp this fact. This is actually not true. It is futile merely to condemn so-called international immorality, as does Mr. J. A. Hobson,[1] or to contend that our conflicts are to be explained by our naïve belief in political myths, as does M. Francis Delaisi.[2]

The real clash of economic interests must be clearly understood if better adjustments are to be secured and conflicts lessened or entirely avoided. This chapter will note briefly (1) the dependence of each section of the world upon every other section, (2) the heavy strain that results because of this dependence and because of a world economic

[1] See for example, his "The Morals of Economic Internationalism," Boston, 1920.

[2] "Les Contradictions du monde moderne," Paris, 1929. The English edition is entitled "Political Myths and Economic Realities," New York, 1927.

organization that is ill-adapted to the demands made upon it, and (3) the necessary economic activities of governments.

Economic Interdependence

Only a brief statement of economic interdependence is needed. Many writers have explained it clearly and eloquently. We may summarize by referring to the distribution of peoples, of natural resources, and of capital in different parts of the earth and by mentioning some of the implications that follow.

An examination of a world map which indicates the density of population shows that there are some areas where this density is very slight and others where it is great. In certain parts of Asia, especially in Japan, in China, and in India; in Central and Western Europe; and in the eastern part of the United States, the density is greatest, although there are, of course, other areas of serious congestion. These densely populated regions are in a state of peculiar dependence, although the more sparsely populated regions are also dependent to a high degree.

In most of the world area numbers continue to grow. In nearly all regions there is a definite decline in the birth rate and in a few countries there exists the possibility of a stationary or perhaps a declining population. This tendency suggests that economic

dependence in some regions may not become intensified because of further large gains in numbers, but it should be carefully observed (1) that these large numbers will endeavor to maintain themselves at their present living standards and (2) that technical developments tend constantly to increase interdependence everywhere.

This dependent condition can be made vivid in several ways. One is to describe the extent to which each of us relies throughout the day upon commodities coming from all corners of the earth. This has been done very effectively by M. Delaisi in his "Les Contradictions du monde moderne" already referred to. Another is to recite the specific foreign articles which the people of any country import.[1] Still another and perhaps more convincing method is to examine the international balance of payments for any country. This shows, for example, in the case of the United Kingdom, the regular importation of large amounts of food and raw materials and the exportation of manufactured articles, together with many so-called "invisible" items.

We may observe that the people in densely populated and greatly industrialized areas are usually dependent in four ways: (1) on outside sources of food supply without which many of them cannot exist or without which their living standards will be sharply lowered; (2) on raw materials for use

[1] See, for example, W. C. Redfield, "Dependent America," Boston, 1926.

in their factories; (3) on foreign markets in which to sell their manufactures for the sake of profits with which to pay for their food, their raw materials, and other needed imports; (4) on many invisible items of trade. These invisible items are often extremely important, and if their flow is checked serious troubles arise. Thus, a decline in the earnings of the British merchant marine or a default on some of their foreign investments is no slight matter for the British people. Similarly, the disappearance of tourist travel in Switzerland, in France, and in Italy precipitates difficulties in these countries.

If we next examine a map showing the various natural resources of the world, we discover that they are not distributed in the same way as the population. One of the most important items of food is wheat, but it can be raised and is raised most cheaply in certain regions where population is not congested. Canada, Australia, Russia, and the Argentine Republic are illustrations. England, France, Germany, and other countries have ordinarily imported large amounts of this wheat. Coal is not found at all in some countries that greatly need it. The same is true of oil, of wool, of raw cotton, and of countless other articles.

It may be suggested that the population of the world should shift to the areas where nature has placed resources for their needs. Unfortunately,

climatic and other barriers interpose obstacles. Besides, each of us now is dependent upon a great variety of articles which are found not in any one place but in all parts of the earth. It is not possible for any one individual to migrate in all directions.

Still a third map might be constructed if enough data were available. Upon it would be shown the wealth of the people dwelling in various regions or their per capita annual income. Attempts have been made to ascertain these amounts, and, although all of them are subject to a high percentage of error, they are suggestive and, within wide limits, may be accepted as accurate. The largest wealth and income per capita are to be found in the United States of America, the United Kingdom, Australia, and Canada. Next are Germany, France, Holland, Belgium, Switzerland, and other countries on the European continent.

To attempt an arrangement of the rest would be unwise, since our information is too meager to permit any high degree of accuracy and a classification might be misleading. What has been stated is enough for the purpose at hand. There are certain parts of the earth whose inhabitants are more wealthy than are the people of other regions. Because of their prosperity many of them have been able to invest in other areas. These areas are known as creditor countries, whereas the areas of investment are debtor countries. Within each

creditor country there may be and actually are large numbers who are poverty-stricken, but some at least are the owners of stocks, bonds, and mortgages issued by governments and corporations of the debtor countries.

If this third map showing the regions of large per capita income, many of whose inhabitants have invested abroad, were superimposed upon the first map showing population density, it would be observed that they agree in part. Dense population and a creditor status coincide for Western Europe and the eastern part of the United States but do not coincide for Asia. Instead, Asia shows us large numbers of people with low incomes and in the status of debtors.

With this very brief sketch in mind, it is possible to emphasize the interdependence of all parts of the world by noting that some areas—*e.g.*, Western Europe—rely constantly upon outside areas for much of their food, their raw materials, and their markets. As creditor areas they count heavily upon the regular receipt of interest and dividends from their investments abroad. Since they have large merchant fleets, any reduction in the carrying trade has a profound effect upon their prosperity. Still other invisible items are important, not the least of which is the heavy tourist traffic.

But the debtor areas—vast regions in Asia, in Africa, and in the Americas, as well as much of

Europe itself—are also dependent. They import manufactured goods and rely on the densely populated regions to buy their foodstuffs and their raw materials. To the investors of these richer areas, interest and dividends must be paid, and from them must be secured much new capital if development is to proceed steadily.

This interdependence is still more intricate. Creditor regions such as the United Kingdom and the United States depend upon each other for many articles of trade, and many people in each of these countries have investments in the other. The inhabitants of South Africa furnish certain commodities, such as gold, to new regions as well as to old, but must depend on some of those same regions for coffee, for tea, for tobacco, and for countless other articles. The intricacies of world interdependence are bewildering both in number and in variety.

The World Economic Strain

Such a situation as this would raise problems under any conceivable form of political and economic organization. People living in the densely populated regions would endeavor to secure adequate supplies of food and raw materials from other areas and would be anxious to sell their products. Even within any single country such as the United States or Germany there are certain to be group

and sectional interests. No possible form of social structure would fully prevent rivalries and friction. To suppose that a more complete development of capitalism, or the substitution for it of socialism, of fascism, or of some other form of organization, would solve all our problems is merely to underestimate the difficulties we face.

Certain aspects of this strain may be mentioned. Some would exist in any case while others arise more directly from the types of economic life that are dominant in the twentieth century. Each by itself is formidable but combined they are baffling in the difficulties they present.

First may be listed the problems of human migration. Nothing is more to be expected than that groups in areas such as Italy and Japan should at times desire to migrate to regions where living conditions are better. Nor need we be at all surprised that in some regions and under certain conditions they may be welcomed, while in other places and at other times they will be resisted. A new country whose few inhabitants are eager to develop their resources rapidly may welcome newcomers, as did the United States for many decades. But, as the newer regions become more settled, immigrants will be less desired and barriers will be imposed. Also national attitudes fluctuate with conditions of business. France may be pleased to have Italians, Poles, Spanish, Belgians, and

others during periods of prosperity but restrict their entry more closely when times are bad.

That these conflicting interests should create a strain and, at times, serious ill will need not surprise us. But even the accumulation of capital makes a problem. Notice that we have said "capital," not "capitalism." A so-called capitalistic organization of society may introduce further complications, but for the moment we are speaking merely of capital goods, of tools and machinery. Production with limited capital is small-scale production and must be local. Large-scale operations and regional specialization are possible chiefly in large factories and with the aid of highly developed systems of transportation and communication.

This brings with it certain consequences. First to be noticed is that regional specialization and the interdependence of regions are encouraged. The development of railways and motor transportation permits the concentration of shoe manufacturing in limited areas and of wheatgrowing in others. Those regions where the costs of raising wheat are low will have a persistent superiority over those where costs are high. Rapid and cheap transport gives one section an advantage and puts another at a disadvantage. Factories situated where power is abundant, where raw materials are accessible, or where labor costs are low can produce more cheaply than their less fortunate rivals.

Where these advantages exist they tend to grow and at an accelerating rate. In any factory the unit costs of production decline to the point where the factory is operated at or near full capacity. On the other hand, unit costs are high to the extent that operations are at less than full capacity. Costs vary inversely with the percentage which actual operation bears to capacity. This is due to the fact that a steel mill or a sugar refinery or a railway system must meet from its revenue costs of two kinds—overhead and variable. The overhead costs usually tend to be a larger percentage of the total as the size of the plant increases.

If a plant is small, if the tools and machinery used are moderate in value as compared with the labor, a loss of orders is important but not tragic. The plant may be closed and the few continuing expenses met with moderate effort. But, if the capital investment is large and overhead costs are 60 or 70 per cent of the total, it may be fatal to stop. Every effort must be made to maintain operation and at as near full capacity as possible. Otherwise bankruptcy will quickly follow.

This percentage of overhead costs is usually greater if the amount of capital equipment is large. Moreover, it tends to grow as certain forms of taxation increase and with the introduction of unemployment insurance, old-age pensions, and the like. As a result, the competition for markets in order

that operation may be maintained becomes more and more intense. As the size of plants increases and regional specialization is developed, the struggle to secure raw materials and to sell products becomes more acute. And since the trend throughout the world is toward large-scale production in many lines, rivalry between groups of producers is increasingly serious.

Another feature of modern economy is the existence of monetary systems. In most Western countries the gold standard has been usual, while in other vast areas, including China, silver has been used. We live in a money economy. Men buy with money and sell for money. Values are expressed in terms of the standard money, *e.g.*, gold. Contracts, frequently for very long periods of time, are expressed in terms of money.

How seriously a money economy complicates the relations between countries has been vividly illustrated since 1914. The pressure of war brought a general suspension by the belligerents of payments in gold and in some cases a "pegging" of the exchanges. In the postwar period there was for several years great confusion, but starting in 1925 there came a return to gold, followed in 1931 by another collapse. At present there is raging a heated debate over the merits of the gold standard as compared with a "managed currency." This discussion will be considered later, but for the moment we

are concerned merely to emphasize the problem and its significance in international life. Through periods of time prices rise and fall. As prices rise, some groups in the community gain while others lose. As prices fall, similar gains and losses occur. Particularly may we emphasize the losses to creditors, the owners of bonds, mortgages, and other fixed income securities as prices rise, and the growing burdens on debtor groups as prices fall.

Since some great areas are, on the whole, debtors, a fall in prices like that of recent years places their people under great strain. In order to meet a fixed monetary obligation, Australia must sell more bushels of wheat and more pounds of wool, Brazil more pounds of coffee, Chile more nitrates. At times the burdens on debtors become so heavy that defaults occur. Within limits the creditors may gain, but often not enough to balance the losses to debtors. The strain on the world as a whole is serious and is often a contributing factor in political disturbance, as, for example, in South America.

Another feature of our economic structure is the necessity of struggling for markets. We buy with money and sell for money. Each of us must "make money." At times this compels rivalry for supplies of raw materials, a rivalry that may become intense when business is active and prices are rising. Such a condition prevailed during the war and for a short

time thereafter. At other times, as subsequent to 1920, commodities may be abundant and sales difficult. If so, there is a keen competition for markets. Every effort must be made to advertise, to sell, to outwit one's rivals in disposing of goods both at home and abroad.

In such a world as the one we are describing, all sellers will desire to monopolize markets. If prices are falling, the situation may become desperate. Agricultural groups throughout the world eagerly seek ways to market their wheat, corn, coffee, wool, etc. In the United States, a Federal Farm Board or an AAA buys and holds millions of bushels of wheat and large amounts of other products. In Russia, the government markets products abroad to the great alarm of people elsewhere. Import boards, dumping, and other devices receive attention.

Under such circumstances each group will vigorously endeavor to justify its sales abroad and will also attempt to monopolize the market at home. Protective tariffs and other restrictions will, of course, be resorted to. Ordinary free-trade arguments stand little chance of acceptance under the conditions that have prevailed in the past few years. Admonitions from a World Economic Conference, efforts to remove import and export prohibitions and restrictions, and attempts to arrange tariff truces encounter little encouragement and their successes are of slight importance.

Finally may be mentioned the significance of the corporate form of organization. Modern business is incorporated with stockholders and bondholders. The officers may own but little stock and can retain their positions and their salaries only in case they can "make money" for the owners. These owners, who may number hundreds of thousands in some cases, know little and often care little regarding the conduct of the business, provided they receive their interest and dividends. Within any given country, supervision, legislation, and business codes may exercise a powerful restraint, but these are of little force in the international market, where the struggle may be bitter and the methods ruthless.

Mention should be made also of the important fact that the ease with which securities may be bought and sold encourages international investment. A person living in one part of the world may readily become part owner of an enterprise in a distant region, thus encouraging the debtor-creditor relationship already described.

The Economic Activities of Governments

To this point we have been describing a world each of whose areas is extremely dependent on every other area. But we have found it also to be a world whose nature and organization introduce stresses and strains. In spite of our interdependence and our need for good business relations with each

other, our interests are not entirely harmonious. Debtors may often gain through the losses of creditors, and vice versa. Densely crowded regions may secure relief through emigration, but the immigrant countries are not always the gainers. In the struggle for markets, very real and permanent advantages may accrue to a given group through the losses or perhaps the bankruptcies of others.

To these complications must now be added the part played by governments. In time man may be able to govern the world as a unit, but as yet he organizes it in fifty or sixty areas, each with its own government, and each government must care for the welfare of the people within its own jurisdiction. A separate tax system marks each country off from every other and tends to unify its economic life. Each must have its own monetary and banking system, safeguard its own gold supplies, and attempt to stabilize domestic business. Pure-food legislation, factory inspection, and perhaps minimum-wage laws are needed. Indiscriminate dumping of foreign products must be prevented. In short, a complicated mass of legislation and of organization unites the people of each state into a distinct economic group. This group has interests and aims that often sharply conflict with the interests of other countries.

As time passes, this condition has become more rather than less complex. The increase of popula-

tion, the growth of cities, and the baffling intricacies of life magnify the responsibilities of governments. Their duties multiply, gaining both extensively and intensively. Each of us must be constantly adjusting himself to a rapidly changing environment and to closer contact with his fellows. Individualism as we once knew it has gone, never to return. Isolated action is yielding to cooperation and much of this cooperative approach is through government activity.

Conclusions

There are, then, three considerations to be kept in mind: the economic interdependence of the world, the strains due to this dependence and to our form of economic organization, and the necessity for each government to supervise and unify the economic life within its own jurisdiction. This is the dilemma. On the one hand, all people have an interest in freedom of trade, in active business relations. On the other, there are interests that are best served by nationalistic action. The two sets of facts are in part antagonistic. To choose clearly between them is actually not possible. World-wide dependence has so developed that it is foolish for anyone to speak of complete national isolation. Yet it is equally impossible at present for the people of any country to remove all barriers to economic intercourse with other countries.

Chapter III

INCREASING STRAIN: THE SIGNS

We are living in the fourth decade of the twentieth century. Throughout the last century and during the early years of this one, certain points of view dominated human thought. Now they are under sharp challenge. The parliamentary form of government, the concept of democracy, and even the idea of progress are being attacked. We are experiencing one of those periodical crises in which well-established institutions are subjected to special strain. We shall doubtless emerge in time with an altered political and economic organization, but no thoughtful person can today speak with assurance of its form or of the assumptions upon which it will be based.

This chapter and the next will present the outward economic signs of this growing strain and some of the underlying reasons for it. Again it should be said that economics is but a part of life and that interpretations from other fields of thought are necessary to complete the picture. Life is far too complex an experience to be explained from any one angle.

Merely a superficial glance at the world scene reveals the growing strain to which we are subjected. Efforts to reach agreements on disarmament, or, rather, on reduction or limitation of armaments, have failed. A new military and naval race is on, with no sign that it can be stopped or even retarded. The Chaco War seems to have ended and the conquest of Ethiopia is accepted as a *fait accompli*. But the Far East is in a state of turbulence and in Europe we are witnessing a realignment that reminds all observers of the years just preceding the World War. Also, it remains to be seen whether the Western Powers after years of dominance may not find themselves compelled to relinquish even more completely the controls they have established in Asia, in Africa, and in Latin America.

The scene constantly shifts and specific illustrations are outdated almost as soon as they are recorded. It is better to pursue the analysis in more general terms. Three major economic considerations may be presented and considered in turn. They are (1) the growth of population, (2) fluctuations in the value and volume of world trade, and (3) difficulties in finding markets.

Population growth and movements are first. No one knows with any precision the number of people in the world in 1800 or even now, although enumerations and estimates are much more accurate as the

years pass. Nevertheless, it is certain that numbers have increased until there are now probably over 2,000,000,000 persons, or more than three times as many men, women, and children to be fed, clothed, and housed as there were at the earlier date. Also, as pointed out in the preceding chapter, they are more numerous in some areas than in others and all are in a dependent position.

Within the last few years there has been a flood of literature about this growth of population and these discussions reveal a most interesting shift in public interest. At the end of the World War, there was a sudden revival of the belief that the number of people was taxing the earth's capacity to provide food and other natural resources for their maintenance. Among the titles of books that attracted great attention in the United States were "Mankind at the Crossroads" and "Standing Room Only." There was a general conviction that population was outrunning food supply and a return to many of the ideas prevalent in the earlier part of the nineteenth century. The movement was characterized as Neo-Malthusianism.

But the last ten years have brought another view. We have heard much of "overproduction" and congested markets. It is contended that we have passed from the older "deficit economy" into a "surplus economy." Attention has been drawn to declining birth rates, especially in the Western

countries of the world. Alarm has been expressed over the alleged "collective suicide" in many countries. These fears have been given special expression in some countries in peculiar ways. Thus, in Germany and in Italy, and in a less spectacular manner in other countries, there has been much said about "population pressure," but at the same time governments have done all in their power to encourage higher birth rates.

Such shifts in thought and such contradictions in public policy presumably can be explained. For a few years after the World War, prices were rising. An upward price movement revealing a "sellers' market" gave the impression of scarcity. Similarly, the fall in prices in 1920 and more spectacularly in 1929 shifted bargaining advantage. There appeared a "buyers' market" and again there was an illusion —this time of abundance. These price movements are not an entire explanation, but they undoubtedly played a part in determining the trend of public discussion.

A few of the facts will help to orient the situation. There is as yet no decrease in population growth in important large areas, but changes are occurring. First is a persistent decline in birth rates. Those who wish details by countries can find them in the current issues of the *Statistical Year Book* of the League of Nations, the latest available at the time this is written being for 1937–1938. This shows

that the birth rate is falling in nearly all countries from the average for 1921–1925. It is true for every country in Europe with the exception of Greece and perhaps of Malta. It is true for America except in Mexico, Colombia, Costa Rica, Puerto Rico, and Venezuela. In Asia birth rates are declining in Ceylon, Korea, Japan, and Palestine but are rising in Cyprus, Formosa, the Straits Settlements, the Malay States, and the Philippines. Australia, New Zealand, and Hawaii show decreases, as does the Union of South Africa, while Egypt shows an increase. Data are not available for a few countries and are imperfect for many, yet the trends are clear even in countries whose spokesmen claim that they are suffering from "population pressure."

But this is, of course, only a part of the picture. Death rates are also declining, a fact of special interest in some of the countries where birth rates are advancing, as in Mexico, Costa Rica, Puerto Rico, and Venezuela; in Cyprus, Formosa, India, the Straits Settlements, the Malay States, and the Philippines; in Greece and Malta. On the other hand, there are slightly rising death rates in a few countries, but all of these have for years had relatively low death rates. Illustrations are the Argentine, Colombia, Ireland, Latvia, the United Kingdom, Australia, and New Zealand. Egypt is the only country listed whose death rate, already high, shows a tendency to advance.

By subtracting the death rates from the birth rates we secure for each country the excess of births over deaths. When this is done, there are found to have been only two countries in which deaths have exceeded births. Moreover, this has been true for only the last three years recorded and by only slight amounts. The rates are per 1,000 inhabitants. In 1937 the excess of deaths for Austria was only 0.3 per 1,000. Every other country showed an increase, the smallest in the two years 1936 and 1937 being 0.5 per 1,000 for Estonia in 1936, and the largest 28.8 per 1,000 for Palestine, also in 1936 (with a decline in 1937 to 22.7 per 1,000).

It seems quite clear that population has grown rapidly during the last century and a half and that this growth is continuing, except in two small countries where there is a slight decline. Moreover, the excess of births over deaths is large enough to result in considerable additions to the number of people in the world for some years to come.

One tabulation of trends is to be found in the table on page 33.[1]

As Mr. Condliffe points out, this table calls for interpretation. China and some other areas are omitted because the data for them are especially unreliable. Immigration, recently diminished, explains some of the larger increases. The low rates of

[1] Presented by J. B. Condliffe in *Index*, p. 140, Stockholm, Svenska Handelsbanken, July, 1936.

gain, with the possible exception of that in China, "are confined wholly to a small group of western

Decennial Rates of Population Increase, 1920–1930

Country	Population 1930 (in millions)	Rate of increase, per cent	Country	Population 1930 (in millions)	Rate of increase, per cent
Brazil	41.1	35.4	Netherlands	7.9	15.4
Venezuela	3.2	32.5	Rumania	18 0	15.3
Sumatra	19.0	32.3	Japan	64 1	15 2
Argentina	11.5	30.8	Chile	4 3	14.9
British Malaya	4.3	30.7	Lithuania	2 4	12 3
Indo-China	23.4	27.4	Spain	23.6	11.4
Uruguay	1.9	27.3	India	352 4	10.7
Greece	6.4	27.3	Portugal	6 1	10.1
Formosa	4.6	25.7	Denmark	3.6	9.7
Siam	11.8	25.0	Hungary	8.7	8.7
U.S.S.R	161.0	24.7	Finland	3.4	8.7
Bulgaria	5.9	22.6	Belgium	8.1	8.4
Korea	21.1	22.0	Czechoslovakia	14.7	8.2
New Zealand	1.5	19 8	Germany	64 5	7.8
Australia	6.4	19.7	France	41 8	6 7
Java	41.9	19.3	Italy	41.1	6 5
Latvia	1.9	19.0	Norway	2 8	6.0
Canada	10.3	18.0	Switzerland	4 1	4 9
Ceylon	5.3	17.9	United Kingdom	46.0	4 7
Yugoslavia	13.9	16.2	Austria	6 7	4.0
Poland	32.1	16.1	Sweden	6 1	4 0
United States	123.6	16.1	Estonia	1 1	3.8
Mexico	16.6	16.0	Irish Free State	2 9	−5.1

European countries which have between them about 250 million people, or one-eighth of the world's total." But after all refinements and explanations, we are still confronted everywhere with an increase

from 1920 to 1930—with the single exception of the Irish Free State.

If we were to confine our attention to the quite short run, as we might properly do for many purposes, since in "the long run" we shall all be dead, it would be possible to stop here. Nevertheless, it should be pointed out that the figures just given are "crude." Specialists in population statistics have refined them in many ways. One point to be noted is that the present excess of births over deaths is quite small in some areas, particularly in the countries of Western and Northwestern Europe and in the United States. It is quite large throughout Asia, in Africa, and in many parts of Latin America.

Also, it is to be observed that the excess of births over deaths is in many countries not due to a high birth rate, but to a low death rate. This low death rate is to be explained by the growth in medical science and in its application. But the best that medical science can do is to prolong life so that more individuals will complete or nearly complete the normal life span. This life span has not yet been lengthened although "life expectancy" has been advanced for the younger groups in some countries.

Put differently, it is said that in many countries the continued excess of births over deaths is due to the "age distribution" of the population. Within a few years many whose lives have been prolonged

will approach the end of the "life span" and the death rate will increase. If in the interval the birth rate does not increase there will be an excess of deaths and numbers will diminish.

Thus Dr. Robert R. Kuczynski, after a careful survey some years ago, pointed out that birth rates had fallen so low in some areas that a net decrease seems imminent. One of his conclusions (referring only to Western and Northern Europe) is:

> With a fertility and a mortality as they prevail at present, the population of some smaller countries still shows a genuine growth, but the population of the larger countries, France, and especially England and Germany, is doomed to die out.

This statement should not be read carelessly. Dr. Kuczynski emphasizes the prevailing trends. Birth rates may rise and, if they rise sufficiently, there may be an excess of births over deaths for a long time to come. If prevailing trends continue, numbers will ultimately diminish.

No presentation is complete which fails to include proper attention to these declines in many countries. There is, accordingly, included the calculation of Dr. Enid Charles,[1] who presents her findings regarding the *net reproduction rate*, *i.e.*, the actual rate of turnover of the population in a generation. She secures this "by weighting the specific fertility-rates (for births of girls) by the

[1] *The Economist*, p. 719, London, June 27, 1936.

proportion of girls born who live to each year of child-bearing age, according to the Life Table."

RECENT NET REPRODUCTION RATES

Country	Year	N.R. rate
1. Western and Northern Europe:		
Saxony	1933	0.50
Germany	1933	0.70
England and Wales	1933	0.73
Sweden	1933	0.73
France	1933	0.82
Scotland	1934	0.91
Denmark	1933	0.91
2. Eastern and Southern Europe:		
Austria	1933	0.67
Estonia	1933	0.70
Hungary	1933	0.91
Italy	1933	1.18
Portugal	1933	1.29
Bulgaria	1933	1.30
Ukraine	1929	1.39
European Russia	1927	1.70
3. Non-European Countries:		
United States	1930	0.98
Australia	1933	0.98
New Zealand	1933	0.98
Canada	1931	1.32

If we are looking for reductions in numbers large enough and prompt enough to relieve the current world strain, the available statistics are not encouraging. First, it is to be noticed that nearly everywhere there is still an excess of births over deaths even though in some countries it is slight. Numbers are not yet being reduced, and in many countries,

e.g., Japan, Italy, Poland, Bulgaria, Rumania, and the Soviet Union, the excess of births over deaths is still large. We may perhaps discount somewhat the famous assertion of Mussolini that his country must "expand or explode," but the population figures for Italy must make us thoughtful. Japan's curve of population growth may be much like that of other countries in the same stage of development, but it is still upward.

A second comment that may be repeated, and with emphasis, is that in those areas where the birth rate is lowest and the death rate also low, the death rate will in time rise. When it does, there will be an excess of deaths over births and numbers will diminish (unless, of course, the birth rate rises sufficiently to offset the increased death rate). But this trend means an alteration in what is called the age distribution. With the passage of time the average age will advance. The percentage of the old as compared with the young will be higher. And this shift tends to increase rather than to lessen economic pressure. As more and more persons pass beyond the age of active work and become dependent, the current productivity must come from the younger, who are a diminishing percentage of the total. That this is a matter of growing concern is indicated by the increased emphasis on systematic provision for the aged, illustrated by recently enacted old-age pension laws in the United States.

Third to be noted is that at any given time the size of the population is not to be interpreted merely by noticing the absolute figures nor as the number of persons per square mile of area, even though the area be designated as arable or productive or in some other way qualified. In the early nineteenth century, population density in Great Britain was by many deemed excessive but, as the years passed, national productivity was increased and national income grew so much that a larger number were able to live at a higher standard of living. Subsequent to the World War, during the prolonged period of economic strain for the British, it has again been argued that the 46,000,000 people in the United Kingdom are too numerous.

It is evident that "overpopulation" and "underpopulation" are relative terms. Recently we have heard much of "optimum population," a term which attempts to give precision to the concept. At this point we may merely observe that it emphasizes the relation between numbers of people and the income available for them. Production is carried on by human beings who use natural resources together with tools and machinery. At any given time there is a certain number of people who could use the resources and capital in such way as to give the maximum product per capita, *i.e.*, the income optimum, or, instead, that amount which may be deemed the most desirable, even though less, *i.e.*, the welfare optimum.

With numbers still increasing in all countries, with average age advancing in many areas, and with per capita income in some of them at times declining, there is clearly an economic strain related to population. Yet there are many regions where the numbers per square mile are greater than in others, and it seems plausible to urge that migration on a large scale would furnish relief. Why not move as many thousands or millions as necessary for the purpose?

To this suggestion several answers may promptly be given. An effort has been made by some countries, for example, by the British, who have encouraged migration to their colonies and dominions. The results have been unimportant. Those least needed at home have often been the ones lacking in the qualities requisite to success in the more rural life to which it was proposed to transfer them. Also, men and women trained to industrial tasks must be "reeducated" for farming, lumbering, etc., even if they are willing to make the transfer.

Moreover, the economic problems to be solved in a directed transfer are extremely difficult. Even the shipping space needed to transport enough people to relieve population strain is an important consideration. Since most of the emigrants are individuals lacking means of their own, funds must be found to finance their movement and for establishing them in a new location. In a time of economic depression, neither the emigrant country nor the

immigrant country can easily meet the heavy expense involved. During periods of prosperity, migration may occur on an important scale because of the tendency to move from low-income areas to those where incomes are higher. But when incomes are declining nearly everywhere, this influence is weak or absent.

In the period we are considering, a still more serious difficulty has appeared. For reasons, some of which are economic and others of a different sort, immigration restrictions have been imposed by governments. Thus, the government of the United States has raised the barriers until the stream of newcomers has been greatly reduced. Other immigrant countries have taken similar action and, strange as it may seem, certain countries, *e.g.*, Italy, have restricted the emigration of their nationals to less crowded areas.

As though this were not enough, there is added the problem of forced emigration. This is not new, but it exists at present on a scale unprecedented in modern times. Its existence and its significance are well known. Its causes are complex, the most important being the rapid increase in anti-Semitism, though economic and other factors are also present.[1]

The strain, then, is not yet lessening but is increasing; first, because numbers are a growing

[1] See "Refugees," *The Annals of the American Academy of Political and Social Science*, Philadelphia, May, 1939.

burden (at least as long as economic depression persists) and, second, because relief through migration is restricted or denied.[1]

Fluctuations in World Trade

If people cannot be moved from areas where they suffer seriously because of a lack of food, clothing, etc., it is possible to secure relief by moving the goods to the people. When strains develop, it would seem rational to lower the barriers and facilitate the flow of trade. If this were done, the evidence would appear in an increase, or at least in a maintenance, of the volume of international trade.

What has actually occurred in the last fourteen years is shown in the following table:[2]

WORLD TRADE, 1924–1937
(In millions of gold dollars of the old weight of 23.22 grains pure gold)

1924	56,828	1932	26,853
1925	64,701	1933	24,175
1926	62,037	1934	23,314
1927	65,280	1935	23,802
1928	67,380	1936	25,723
1929	68,619	1937	31,769
1930	55,552	1938	27,736
1931	39,701		

[1] Much has been said of past relief to Western Europe through heavy migration. The exaggerations in this connection and the need for interpretation of the movement have been stressed, *inter alia*, in "A Place in the Sun," by Grover Clark, New York, 1936.

[2] "Review of World Trade, 1938," p. 60, League of Nations, Geneva, 1939.

What this decline has meant in economic pressure scarcely needs elaboration. It should be noted that the figures are in dollars or value, not "quantum." There has been a much smaller decline in quantum, but it should not be forgotten that declines in values are tremendously important in a world where business obligations are expressed in monetary units. Ability to meet these obligations is accordingly affected when values fluctuate.

For some other purposes, changes in the physical volume of trade are more significant. These changes in quantum for recent years are given in the following table.[1] Since tons, yards, gallons, etc., have no meaning when combined, the index number as calculated by the League of Nations is presented, the year 1929 being used as the base.

World Trade 1929–1937
(Quantum with 1929 as 100)

1929	100.0	1934	78.2
1930	93.0	1935	81.8
1931	85.5	1936	85.8
1932	74.6	1937	96.5
1933	75.4	1938	88.8

These two tables show interesting and significant trends. After 1929 there were sharp declines in world trade. In quantum, the low point was reached

[1] "World Production and Prices, 1937–38," p. 73, League of Nations, Geneva.

in 1932, when the amount was 74.6 per cent of that in 1929, a loss of 25.4 per cent. In values, the low was reached two years later, in 1934, when the amount was $23,314,000,000, or only 34 per cent of that in 1929. Since 1934 there has been an increase followed by a decrease to $27,736,000,000 in 1938, or to 44 per cent of the values in 1929. In 1938 the quantum of trade was back to 88.8 per cent of 1929.

There were definite signs of recovery, especially in quantum, although the figures for 1938, which are now available, clearly show some recession. At the same time, even this recovery in physical volume, although helpful, should be examined critically. Before doing so, however, attention should be drawn to the continued low percentage in values. For some purposes physical quantities are more important, but business contracts are expressed in monetary terms and a decline in values has very great effects upon the ability of debtors to meet their obligations. The values in the above table are in old United States dollars with a weight of 23.22 grains pure gold. In 1933 this dollar was reduced in weight by nearly 40 per cent, a change which made it easier for debtors to buy dollars with their currencies but at the same time tended to check the importation into the United States of those commodities and services out of whose sale the dollars could be secured. Also, beginning with

the suspension of gold payments by Great Britain in September, 1931, a large number of other currencies were depreciated. These actions had the opposite effect. Changes so numerous and contradictory make calculations difficult. To some extent they have offset each other, which gives more significance to the values. Where they do not do so, the changes introduced add to the confusion and strain.

It may be worth while to illustrate the difficulty of accurate statements by noting the following calculations of the value of world trade during recent years expressed in percentages of 1929 with values in pounds sterling. These figures, like the ones in the previous tables, are as published by the League of Nations.[1]

World Trade, 1929–1937
(In percentages of 1929 with values in pounds)

1929	100.0	1935	58.0
1932	54.3	1936	62.0
1933	51.7	1937	77.2
1934	55.0	1938	68.1

Returning to values in the old gold dollar, since most of the calculations of the League of Nations are expressed in this way, we may next note that the strain has been much greater on some countries than on others. This may be shown by giving the

[1] "Review of World Trade, 1938," p. 60, Geneva, 1939.

exports and imports in 1937 for a number of countries in percentages with 1929 as the base.[1]

GOLD VALUE OF TRADE FOR CERTAIN COUNTRIES IN 1937
(Percentages are calculated from old gold dollar values with 1929 as 100)

	Import	Export
United Kingdom	51.5	42.9
United States	41.0	37.7
Germany	40.6	43.8
France	44.0	28.7
Japan	63.7	54.8
Italy	37.7	40.4
Australia	41.5	58.2
U.S.S.R.	33.4	40.7
World	45.6	46.5

It is clear that the changes have concentrated on some countries more than on others and in different ways. For the United States the recovery has been less than for the world as a whole in both import and export trade. Japan is well above the world average, while Italy is below. France has lost heavily in exports, while the United Kingdom has increased imports more than exports.

Illustrations of alterations in both value and quantum could be multiplied and anyone who desires to do so can readily find them in the source cited above. The ones just given are sufficient to make several points clear. Even in physical volume

[1] "Review of World Trade, 1937," p. 27, League of Nations, Geneva, 1938.

world trade is not back to the level of 1929, although the "normal" changes in the period would have presumably brought this volume to new high levels.

In values there are (1) a lag for the world as a whole, the totals for 1938 being only 40 per cent of the amount in 1929, and (2) serious distortions due to the greater changes for some countries than for others and for different rates of change between exports and imports. Notice, for example, the acute problems faced by French exporters, whose markets in 1937 were only 28.7 per cent of those of 1929, and for United States exporters, whose markets were only 37.7 per cent of those of 1929. Consider the implications of the growth of Japanese imports to 63.7 per cent when the world growth was only 45.6 per cent, and of the increase of Australian exports to 58.2 per cent as compared with the world figure of 46.5 per cent.

A word further may be said about the United States. There is no reason here or elsewhere for suggesting that the amounts or values of exports and imports in 1929 were satisfactory in any long-run sense. In fact, the very contrary was probably true. But for the purpose in hand the comparison is important. A certain adjustment of the economy of the United States existed in 1914. The war brought changes and strains. A new adjustment of an unsatisfactory nature was attained prior to 1929.

That adjustment has been disturbed with another set of acute strains and with no sign that a new and more permanent working equilibrium has yet been secured or is in sight.

In the meantime, the United States suffers. First, there has been no adjustment to the fact that the country is in a creditor position. There is no disposition either to resume foreign lending or to make changes which will permit a larger importation of goods and services. Second, all our efforts are directed toward securing an enlarged volume of exports, which we persist in viewing as "favorable" but which can continue in excess of imports only if we are prepared to buy foreign securities. Third, we are limping along by continuing to receive large importations of gold, until today our monetary gold supply is over $16,000,000,000 (new weight dollars), or over 57 per cent of the world's known stock of monetary gold. This is, of course, not to be explained in full by an unbalance in trade. Much of it at present is a flight of funds from Europe because of the fear of war.

Difficulties in Finding Markets

One aspect of the situation in world trade as sketched above calls for special comment. Economic life everywhere is so organized that each individual, each group, and each country must "make money." This has nothing in particular to

do with the gold standard or any other monetary system. We have division of labor and specialization. Each person, and each group, finds an immediate gain in disposing of his commodities or services on the most advantageous terms he can secure, receiving in return a medium of exchange of some kind. Hence, every effort is made to sell at home or abroad. Sales (which in foreign trade are exports) are viewed favorably while imports, which may be competitive, are deplored.

It is, therefore, not surprising that everywhere efforts are directed toward expanding exports and curtailing imports. Each country fights to get markets for its own goods while restricting the markets of other countries. If a reasonably good equilibrium between various countries and industries could be secured, there would still be strains. But under present conditions such a struggle brings tensions that are almost intolerable. Until these strains can be relieved there is slight ground for believing that we can prevent ups and downs of employment, further fluctuations of currencies, and all the other ills from which we have been suffering for years past.

Chapter IV

INCREASING STRAIN: THE REASONS

If an attempt is made to lessen the increasing strain whose signs were surveyed in the preceding chapter, we must next undertake their explanation. Certainly it would be an error to view them as final causes of our troubles, in case they are solely or chiefly symptoms. If large armaments are to be explained by other influences, then it is better to remove whatever may cause them. If barriers to international trade arise out of basic tendencies in modern economic life, it is well to know what these tendencies are.

Such an inquiry is likely to be disconcerting and discouraging. It will uncover dangers that are profound and far-reaching. It will show the superficial nature of many current proposals and reveal the futility of many panaceas. Much that may be suggested will doubtless be challenged and perhaps be refuted by others. No one person can present a complete or a properly balanced analysis. But there is every reason why each student should do what he can to aid in an understanding of the forces at work.

To the biologist and others must be left the task of explaining why human beings multiply. Economists cannot claim competence here and can only refer to what experts in other fields are telling us. Some of the facts are clear. Thus, population has grown rapidly in the last hundred and fifty years and is still increasing. In most parts of the earth the growth continues, although the rate of gain is diminishing. Everywhere it is believed that these masses of people are a problem.

At one time they are said to be so numerous that the earth cannot furnish adequate food, clothing, and shelter—the Malthusian or Neo-Malthusian view. We are reminded, as we were a century ago, of the "law of diminishing returns" and, perhaps, of the "iron law of wages." At another time, as in the last half dozen years, we may be told that we are in a position to produce more than we can consume, that we do not know how to distribute what we produce, or that we shall have with us forever a growing amount of technological unemployment. There seems to be agreement with at least one general proposition—that there are many problems facing us that are related to numbers of people and our ability to care for them.

While we must not make any blundering excursions into biology or psychology or anthropology, it is essential to record what we understand are the conclusions of our fellow scientists in these other

fields. Three of these conclusions that are of significance may be briefly mentioned.

One is that in many areas there are now but few traces of racial distinctions. There are in some areas differences of color and some racial groups still persist. But in many of the countries whose economic relations with others are causing strain the explanation is not to be found by noting that the contending groups are of different race. There is no English, or French, or German, or Italian, or American race. In most countries the people are a mixture so complete that analysis and solutions based upon such distinctions are entirely futile.

But among the many national groups, even where evidences of some racial purity can be found, we are informed of a second significant conclusion. In their biological heritage, the people of any given nation or even race differ slightly, if at all, from those of other nations or races. This is not a denial of differences between individuals or of the significance of inherited characteristics. It does, however, mean that contrasts in national and racial attitudes are due to something else than to inherited physical or psychological characteristics so fundamental that we must accept them as immutable. For the most part, and perhaps entirely, national and racial (not individual) contrasts are related to social institutions and to environment—to nurture rather than to nature.

Third is a conclusion sharply at variance with the beliefs of the past generations and one which strikes sharply at much that has been viewed as basic in social science. A century or more ago, the economists, the political scientists, and the philosophers assumed that man is largely rational. Today we are told that he acts chiefly along lines determined for him by acquired habits or in an emotional manner. Reason plays only a minor role. Habits and emotions are far more important.

It does not follow that the elaborate analyses of the classical writers must be discarded. In economics, for example, many students urge with force that even this profound change in our conception of human beings affects but little the economic theories that have dominated thought for so long. Nevertheless, the newer interpretations are not to be forgotten.

In fact, they are most important today. We are a world of some 2,000,000,000 human beings who vary enormously as individuals but are remarkably similar in groups—similar in whatever it is we may think of as our fundamental qualities. Because of our limitations and because of the intricacy of the task, we have not yet found a way to organize our world as a political unit. Instead, we divide it into a large number of areas, each with its political and economic organization. Each of these separate states claims the legal attributes of sovereignty,

independence, and equality. True, all three of these are greatly modified. In every case there are some qualifications and in many they are numerous. But everywhere there is the idea of a separate nationality and a spirit of nationalism. This spirit is intense and in many cases does not correspond to existing national boundaries.

But governments exist and perform certain functions. Each of them organizes and directs the political and economic life of its citizens. If this world were static, time and experience might permit the development of international relations that would be reasonably satisfactory. Adjustments could perhaps be secured and maintained under which there would be a considerable degree of stability. Yet life is not static. It is dynamic. Changes of countless and bewildering variety crowd upon us. Tensions appear. If lessened by something we fondly call solutions, they are quickly replaced by others. And these changes come more and more rapidly.

Notice, first, the growth of science in all fields—physical and social. The earth does not change in superficial area, but transportation and communication today have contracted it socially. Aviation has shattered the isolation of every country. The telegraph, the telephone, wireless, and the rapidly developing television have crowded us together. What happens today in any part of the world is known in a few hours or perhaps in a few

minutes in the most distant places. Even photographs of what has occurred in Europe are now reproduced within a few hours in the United States. In manufacturing, in agriculture, and in all other aspects of life the most stupendous changes are occurring.

Nor are the scientists in separate compartments as in the past. We have biochemistry, biophysics, physical chemistry, and social psychology. We have economists, mathematicians, psychologists, political scientists, and the rest, working in cooperation. There are large organizations whose experts are almost feverishly investigating in every field of interest or of importance to human beings. And what they discover or surmise is quickly seized upon by business and by government, for good or for ill. And each year the tempo is quickening.

Let us notice just a few of the consequences of these changes. First is the growth in the amount of capital used. Of course, there is a more efficient use of human beings as they are analyzed and psychoanalyzed and experimented upon. But in many lines machines are taking the place of men. Often hasty and inaccurate conclusions are drawn about the results. It is said that we are facing a new fact—technological unemployment. Of course, this phenomenon is not new, but, as machines are substituted for human labor under twentieth century conditions, the problem has new aspects.

Some of these need not concern us here, since we must limit ourselves to those consequences that are most important in international relations. For example, there is the rapidly enhanced significance of overhead costs. Brief reference was made to it in a preceding chapter, but further discussion of it will be helpful. Variable costs for any business are those that fluctuate directly with volume. Thus, the outlay of a steel plant for raw materials usually varies directly with the volume of its output. The same is true of much of its wage bill and of many other items. In so far as these expenses are concerned a decline in orders presents no serious financial problems for the corporation. As sales decline, expenses decline.

But not all costs are of this sort. In a somewhat primitive, small-scale business such as a little shop for repairing shoes, most costs are variable. But if a factory is large, and especially if a great deal of machinery is used, many of the costs do not vary directly with the orders received, the sales made, the extent to which the plant is operated at full capacity. Tools and machines as well as land and buildings must be purchased. They call for an investment which may be very large. This investment means the issuance of stocks, bonds, and notes and extensive borrowing at banks. The property must be insured. It depreciates and good business practice calls for the setting aside each

year of reserves for replacement. These costs are persistent. Many of them are characterized in modern accounting as "fixed," although "fixed" and "overhead" costs are, for a variety of reasons, not entirely synonymous.

As time passes, these overhead costs become large and, in many cases, a larger fraction of the total outlay. They may be 60 or 70 or even a higher percentage of the aggregate. There are corporations that have agreed to guarantee to their workers a certain wage payment per year, an amount that at once passes from the variable into the overhead in our classification. Unemployment insurance (or assurance), old-age pension funds, and numerous other innovations add to the amounts which must be disbursed each year with a constantly diminishing reference to the volume of business actually done.

What of it? For our purposes the significance of overhead lies in its tendency to increase competition. If a corporation must expend a given sum each year regardless of its actual operations, there are certain consequences. One is that its costs per unit of output rise sharply if the plant is operated at a reduced capacity. Variable costs decline but overhead costs do not. The larger the overhead the less the reduction. If total outlays are divided by the number of units of production, *e.g.*, tons of steel rails, a small output means a higher cost per ton; an increased output a lower cost per ton.

From this it follows that a quite moderate decline in sales may quickly drive a corporation into financial difficulties, while a moderate increase may quickly take it "out of the red." This is so well illustrated in the case of the railways of the United States that it may be emphasized by the following quotation from an editorial in *Railway Age* of October 12, 1935:

> Can the railways "come back"? we often hear asked. Another illustration of their ability to "come back" if given a chance has been afforded by the difference between their operating results in July and August. Average weekly car loadings increased from 557,184 in July to 620,413 in August, or 11 per cent. Gross earnings increased from $275,349,115 to $294,017,777, or 7 per cent. Operating expenses increased from $217,930,698 to $221,237,698, or only 1½ per cent. The ratio of operating expenses to gross earnings declined from 79.15 to 75.25. Net operating income increased from $26,851,393 to $42,073,256, or 57 per cent.
>
> We see here again a relatively large increase in net operating income such as has occurred repeatedly within the last three years due to a relatively small increase in gross earnings. An increase of 25 per cent in gross between July and October 1932 resulted in an increase of 456 per cent in net. An increase of 35 per cent in gross between March and July 1933 resulted in an increase of 510 per cent in net. The converse also has occurred. A decline of 6 per cent in gross between July 1933 and July 1934 resulted in a reduction of 45 per cent in net.

American railways are engaged largely in domestic business rather than in foreign although, of

course, a considerable volume of their freight goes to markets abroad. The quotation is presented because reliable statistics are more available for them than for industrial corporations and because the principle involved is the same. If a corporation has large overhead costs, each item of additional sales is important, since many of its costs do not rise with the volume of its operations. This leads to intense competition and, unless this competition is in some way restrained, to destructive price cutting and to bankruptcy. Restraints are imposed, especially within a given country, by legislation, by supervision, or perhaps by agreements among the competitors.

Also in the field of world trade some restraints appear. Large combinations of various kinds seek to cooperate. Industrial combines, cartels, etc., are numerous. To the extent that they raise questions of price and of industrial policy, they present us with new problems that are varied and serious. Where they do not exist, the competitors resort to practices that arise, at least in part, from the pressures we are describing. If prices in the domestic market can be maintained (usually with the aid of a tariff or often quotas on competing imports), it is possible to secure additional and perhaps large net gains by selling extra output in foreign markets at a lower price. As output increases, average costs decline and net income may sharply rise.

This practice of "dumping" is increasingly common and serious. Most leading countries attempt to prevent it by antidumping legislation and later we may indicate why such legislation is more and more difficult to frame and to administer.

A second aspect of modern large business adds to the complications, *viz.*, the great number of by-products. A large meat-packing plant produces different kinds of meat—beef, veal, pork, mutton—but also a multitude of other articles—fertilizer, oleomargarine, buttons, glue, etc. This introduces the problem of the allocation of overhead costs among the different products. For example, how much of the salary of the president of the company or of the interest on the bonds issued to secure funds for purchasing the stockyards should be charged to glue and how much to oleomargarine? Accountants have devised helpful formulae but there is no strictly satisfactory answer. Overhead costs cannot be logically allocated to a particular by-product and in some cases they are juggled to suit business emergencies. With overhead an ever-present nightmare, costs may be arbitrarily apportioned and competition for sales is bitter. Especially is this true in the international field, where such restraints as may be imposed by domestic legislation are lacking and where also there are no compunctions about the effect on the "foreigner" who

presumably is of less significance than a fellow countryman.

A third complexity in business arises from the rapid progress of science to which we have referred. New discoveries and inventions speedily make particular types of machinery and methods of production obsolete. Tools and machines deteriorate with time and with use. But of growing importance is the speed with which they become worthless because better tools and machines have been constructed and cheaper methods devised. "Obsolescence" is a more and more serious fact for accountants, for businessmen, for everybody. More efficient devices and methods are a human gain but they are a business problem.

Much might be said of the difficulties in securing and retaining markets, in building up foreign sales in the face of intense opposition, and of the quickness with which the work of decades may be upset in this dynamic world. But we must pass to another aspect of our question. Modern business has brought complexities, some of which are merely the old ones in a magnified form, others of which are new. They come to a world divided into sixty or more areas, each under its own government with its claims to sovereignty, independence, and equality. This world is peopled by human beings who would be baffled by the difficulties if they attempted a rational approach but whose reactions are not

primarily rational. They are to a large degree emotional and habitual.

A few years ago, G. D. H. Cole, a British economist, observed: "It looks today as if the Victorian epoch of *laissez faire* were but a brief interlude between two long periods of collective regulation." For many years resentment against controls of government over business grew and by the end of the eighteenth century this opposition had brought sweeping changes in thought and in practice. The new views appeared in all lines and were based upon current conceptions of human nature. In politics the French spoke of "Liberté, fraternité, égalité," and in America we alleged that all men are created equal and have a right to life, liberty, and the pursuit of happiness. Philosophers wrote of natural rights.

In the economic writings of the time these same ideas were developed by almost countless students whose views, taken together, comprise what is commonly referred to as the classical school of thought. At its basis was the conception that human beings are largely rational; that they have certain natural rights; and that, if freed from restraints, they will, of their own accord and acting in their own interest, carry on their own activities in such directions and in such ways as to produce the maximum volume of goods and to give the greatest social advantage. The complexities of their

doctrines need not detain us here. They were permeated by the view that "natural laws" may be formulated in terms of which economic phenomena may be explained. And many writers went further. To the extent that they departed from the field of mere explanation or of pure science and advised regarding procedure, some of them seemed to endorse a regime of *laissez faire* as desirable and to recommend its adoption or retention. The role of government, they urged, should be closely limited.

It is easy today for superficial cynics to scoff at these views and many are doing it. Two comments should, however, be made. First, considered as an explanation of economic procedure in the early part of the nineteenth century, they were probably more accurate than any other generalizations that could be presented. As a basis for public policy they also had much to commend them at the time. Second, we should not forget that even now many lines of economic activity may be described better in classical terms than in any other way and that the transformation of economic life in the last one hundred years or more has not been complete. It is only partial and an unqualified endorsement of governmental control may today be as unwise as would be the advocacy of complete noninterference.

But sweeping changes have come and with great rapidity. Governments have not restricted themselves to the few functions that were approved by

nearly all a century or more ago and that are still thoughtlessly advocated by many conservatives. Perhaps some of the amazing increase in economic productivity in the nineteenth century was due to the lessening of restraints on business. But as time passed intricacies grew. Unmodified individualism was in many lines supplanted by cooperative action. Business organizations were multiplied in form and grew in complexity. Partnerships and then corporations became more common. Consolidations, mergers, and especially the modern holding company appeared. In the face of these and other changes, each of us finds himself ensnared in a multitude of relations with his fellows. If by "rugged individualism" is meant isolated economic effort by each person without cooperation with others, it is a "figment of the imagination." To the extent that it has disappeared, its complete restoration is an "iridescent dream."

To be sure, its advocates do not expect such a literal interpretation of their views and the "collectivists" have little or no difficulty in ridiculing the more extreme presentations. But even as a matter of emphasis in presentation the theory of "more business in government and less government in business" permeates public thought today in many countries and especially in the United States. As a corrective to our rapid expansion of government functions, this conservative view may

have its value. As an accurate description of what is going on, it is a grotesque anachronism.

Mr. Cole, quoted above, is right. The Victorian epoch seems to have been only an interlude. We are asking our governments to undertake more duties, to perform old tasks more thoroughly and more elaborately and hence more expensively, and to assume many new ones. The increases are both intensive and extensive. It has been easy to condemn or perhaps even malign what has occurred in Russia. But in less degree and, *mutatis mutandis*, the same trends are observable in every country on the globe. During the last five or ten years they have come with especial rapidity, but they have been observable for many decades. For some time we have chosen to refer to some of its manifestations as "national economic planning," but this is the current slogan which has vividly concentrated our thought on a movement that is not ephemeral but will, so far as we can see, continue indefinitely. We may retard it or regularize it or improve it, but we shall not prevent it.

Much of the last few pages may seem to be a diversion from our main theme. Not at all. The "end of *laissez faire*," as John Maynard Keynes has called it, has much to do with international affairs. One influence has come through the replacement of individual or at least small-scale economics by that of the large business organization. Foreign

investments, foreign trade, protective tariffs, and dumping of goods have grown in volume and importance. One effect has been that powerful business groups have prevailed upon their respective governments to aid and protect them in their foreign ventures. Another, as urged by Eugene Staley in his recent volume, "War and the Private Investor," is that

> . . . private investments have been pressed into service as instruments, tools, of a larger political purpose, which the investments themselves did not originate. Investments used in the service of naval and political strategy, colonial expansion, quests for national glory, and the like, have been more productive of international friction in the past than investments actuated solely by private motives.

To these relations between foreign trade, investments, and international strain much attention has been given. Less has been said of two other consequences of the growth of state activity. One is the way in which it tends to consolidate and integrate the economic life of each country.

It has always been true that governments have to a significant extent knit together the economic life of their respective countries. The nature of their responsibilities has of necessity had this effect, as has also the theory, or rather the many diverse theories, by which the existence and functions of government are explained. With certain exceptions whose significance varies from time to time, it is

with the state that final authority rests and in times of stress a challenge to its authority usually has resulted in an overwhelming victory by the state. In the last few years this has been particularly true, as, for example, in Russia, in Germany, and in Italy.

No amount of rationalizing about the serious political and economic consequences of state supremacy alters the facts. And, as the state assumes more and more control over all aspects of life, the economic organization of each country takes forms which mark it off more and more clearly from other countries. The interests of each nation become consolidated and are less in harmony with those of other nations.

Governments exercise their rights to alter monetary systems, perhaps by the suspension of the obligation to redeem their paper money in gold or by reducing the gold content of the national unit. The reasons given may be good or bad but the effect is to increase economic rivalries, to intensify international economic strain, and to oppose the interests of one group of nationals against other groups. Increased functions of the central banks and closer relations between those banks and their governments add to the financial unity of each country.

In countless other directions the growth of state control has similar effects. More careful inspection of imported flora and fauna; oversight of working

conditions in factories; concern for the condition of agriculture; protective devices of all sorts (including protective tariffs); legislation providing for maximum hours of labor and minimum wages—these and countless other extensions of state activity give a special organization and character to economic life.

And as each of these structures develops, the interests of the people of each country become distinct from those in other countries. Movements of gold, of commodities, of capital, and of people are more and more limited because their unrestricted passage across national boundaries might have serious repercussions.

This does not mean that there is not still a vast field within which the interests of all peoples of the world are harmonious. World economic life in all its aspects is intricately interwoven and world interdependence is great. But the decline of *laissez faire*, the growth of state control, the increase of national economic planning, tend to narrow the field of common interest and increase the divergencies. Governments may exaggerate their importance and abuse their power, but such errors should not blind us to the fundamental tendency which arises out of the supremacy of the state and its continually enlarging sphere of activity.

A second consequence, closely related to the first, is the increased extent to which economic activities

are actually carried on by the state or closely supervised by it. This may seem to be merely a restatement of what has just been said, but it is instead an emphasis on a trend in international economic life whose significance is not yet fully appreciated. Governments are not merely exercising domestic controls to such an extent that there is a growing opposition between the different national economies. The movement has gone further. Governments as such are more and more determining the volume and direction of international transactions and to a greater extent are themselves engaging in the transactions.

Russia, of course, presents the outstanding illustration. More and more the internal economic life of that country is consolidated as a government activity. As a not unnatural corollary, international transactions are also carried on by the government. There is a controlled price for the Russian ruble in the foreign exchange market. Foreign loans are either to the Russian government or to one of its many agencies, or at any rate to borrowers and on terms that the government dictates. Purchases and sales abroad are by a government corporation.

What is so obvious in Russia is growing elsewhere. Reference may be made to conditions almost as extreme in Italy and in Germany, but the tendency is by no means confined to countries where

there are dictatorships. Even in the United States a similar change is clearly visible. Government wishes have been respected by bankers in the flotation of new foreign security issues in the United States, and under recent legislation not only domestic but foreign security issues must be listed with a government commission if they are to be bought and sold on our exchanges. The Johnson Act forbids new loans to countries which have defaulted in their obligations to our government. Immigration is sharply restricted by federal legislation. Goods have been exchanged in considerable quantities by our government with others as, for example, with Brazil and with China. An indefinitely long list of illustrations can be assembled for the United States and for other countries. State economic activity in the international field is on the increase.

Some of this growth is closely identified with the depression beginning in 1929, but this recent acceleration should not blind us to the fact that the trend has been continuing for many years. Moreover, there are as yet no signs that it is diminishing, but every reason to believe that it will continue indefinitely. It may conceivably be retarded but in all probability it will not be actually checked or reversed.

Several of the consequences may be noted. One is the friction (and often ill will) that follows. This is

well known in connection with our restriction upon immigration from Japan and upon the flotation of new loans in the United States as limited by the Johnson Act. But the delays to ordinary commodity transactions are, perhaps, not so fully appreciated. Rather than elaborate these here, reference is made to an addendum at the end of this chapter which describes the procedure followed by an American corporation in 1935 in arranging for a sale of its goods in Italy. The name of the corporation and of its product are not given. It is to be hoped that such elaborate procedure is to be explained in part by the peculiar problems facing Italy in that year. At any rate, it shows what can be done and is done in times of strain and illustrates the power of a modern government to influence the volume and direction of trade.

Perhaps more important are the difficulties raised even if governments under the new conditions really desire to facilitate the exchange of commodities. If we attempt to state the considerations which will determine its decisions, what shall they be? Under older conditions, when international trade was largely between the nationals of the countries concerned, scholars explained the movements by formulating a series of principles, or "laws." In the next chapter a reference will be made to some of the consequences and to the difficulties they raise.

Addendum to Chapter IV

Straight barter between the United States and Italy can take the following form, and transactions have actually been worked successfully on this basis:

Let *A* = the American exporter
B = the American importer
C = the Italian importer
D = the Italian exporter

Assume *A* is in contact with *C* and knows that the latter is prepared to buy a shipment of material but cannot finance it direct and cannot get an official permit to import (under present-day conditions, most American exporters would be reluctant to ship to Italy for payment after arrival there, even if an official import permit has been obtained).

Assume *A* also knows that *B* imports certain items from Italy.

Then *A* approaches *B*, who, being in the market at the time, agrees that he would be willing to buy certain materials from the Italian exporter, *D* (in the average case *B* and *D* would already be acquainted and *D* would have been a supplier to *B* in the past), if an acceptable price could be obtained, and that he, *B*, would be glad to receive a "compensated quotation" from *D*, subject to the understanding that the dollars which he would eventually owe to *D* for his import would be re-

tained in this country and made available to *A* to cover his shipment to *C*.

A then communicates with *C*, requesting him to contact *D* and offering him the highest rate of compensation he can on the basis of which he, *D*, is to quote *B* a compensated price contingent upon the proceeds of the sale being made available to *A* as per the preceding paragraph. *D*'s quotation to *B* may be in dollars or in lire. In the latter case, *C* assumes the exchange risk since, until the transaction has been liquidated and the lire converted into dollars in this country, he does not know how many dollars will become available to pay for his import from *A*, on which he presumably has a dollar quotation.

Assuming that the item to be shipped from the United States to Italy is, for instance, a raw material for industrial uses and in much demand there, the importer *C* may be willing to offer the exporter *D* a commission or compensation of, say, 10 to 15 per cent (which in the end *C* must add to the final cost to him in lire of the goods which he imports from the United States as a result of the transaction), to induce *D* to become his compensation partner and quote *B* as requested.

D, with this margin, of whatever it may be, on the side, can quote *B* a lower price, perhaps low enough to make the sale possible, although normal present Italian prices are high on account of the

high exchange value of the lire in terms of dollars. In some lines it may be only as a result of having received a compensation commission that the Italian exporter can quote low enough to sell here at all.

Assuming that *D* quotes a price acceptable to *B*, they close the deal and the first stage of the transaction is completed.

Then *C* and *D* must jointly apply for permits to make the export and import. They must set out, among other details, the terms of the transaction, what material is to be imported and what exported. The total value of the Italian export must be equal to or in excess of the value of the Italian import.

If the transaction is one which the Italian authorities look upon with favor, that is, generally speaking, if the Italian export is one which they are willing should be bartered and the import is considered a desirable one, the permits are in due course issued. Not all Italian exports, however, are subject to barter, and therefore the item exported should be a new one, *i.e.*, one not previously shipped to the United States, or should represent a definite increase over previous sales of the same material, although in practice the rule may not be adhered to strictly.

Once the permits are issued the parties are free to proceed, but the Italian export must be made first.

In a case worked out along the above lines, the Italian exporter made his price in lire and shipped and drew upon the American importer, *B*, with instructions to the bank that the proceeds of the draft after conversion into dollars be made available to the American exporter, *A*. *A* then advised *C* when these proceeds were received and shipped to *C* the quantity of material which the number of dollars received would pay for. On receipt of advice of the payment to *A*, *C* paid *D* in lire the amount of *D*'s draft on *B*, plus the compensation agreed upon.

This was a roundabout transaction and anyone in the group *A*, *B*, *C*, *D* might have taken the initiative to work it out, although it is likely to have to be the American exporter in any given case. The system may be said to work as it might be said that an oxcart would do the work of a motor truck, but it seems doubtful that the total volume of trade could be increased or even kept up to ordinary levels on such a basis.

It seems that many barter transactions are now being worked out in Italy between an Italian exporter and importer through the intervention of local banks. In such cases the parties involved may not know each other as compensation partners, but the Italian importer, *C*, makes an arrangement with an Italian bank, which is making a collection for the Italian exporter, *D*, to have

the proceeds of the collection made available to the American exporter, *A*, to pay for his, *C*'s, import. Such funds could be made available to *A* through the establishment of a letter of credit or by payment in cash. This is much less complicated for *A* if *C* is anxious enough to receive the import to take the initiative.

Today, of course, there is an embargo against the shipment of certain items to Italy and these could not be financed at all. Also, letters of credit are being established in some cases, of course, where the material to be shipped is actually required in Italy and is rather being bought by the Italian importer than sold by the American exporter.

The above is, of course, only a generalization. Many official regulations have been issued and it is not easy to keep abreast of all of them. The American exporter can probably be 100 per cent safe only by not making his shipment until he has received payment for it, either actually or potentially under a confirmed letter of credit issued by a bank in this country. On the other hand, some American exporters are still continuing to ship to Italy on terms more or less the same as in the past, although the delay in receiving dollar exchange for such remittances must be considerable.

CHAPTER V

SOME OF THE CONSEQUENCES

The preceding argument leads to several very definite conclusions. The first is that modern technology has greatly modified economic organization and operation. In many lines and especially in those most important in international relations, individual activities have become increasingly subordinate to group activity. Business is carried on by large corporations whose structure is exceedingly intricate. Many great enterprises employ thousands or even hundreds of thousands of workers and often have thousands or even hundreds of thousands of security owners. They are a common and not an unusual form of business organization. Investments in physical equipment are enormous, overhead costs are an ever-enlarging percentage of the total. Competition may be and often is bitter and may speedily lead to disastrous bankruptcies unless prevented or delayed by agreements among the competitors. Such agreements are numerous, ranging from varied informal understandings through cartels and similar arrangements to outright consolidations.

Second is the increasing role of governments. In some cases economic undertakings are on so large a scale or of such nature that private enterprise is inadequate for their performance. Such, for example, was the construction and operation of the Panama Canal. Others are designed to meet needs of the future with earnings so long delayed that only governments are able to make the investment for the sake of long-deferred and perhaps quite indirect gains. Still others, if not operated or controlled by the government, would place in private hands an ability to dictate prices and quality of service to an extent that public opinion will not tolerate.

Third, there is a growth in controls—through private as well as through public collectivism. Some denounce the "trusts"; others object to governmental "interference," calling it socialism or communism. But the movement goes on—in recent years at an accelerated rate. Moreover, it is almost, if not fully, as extensive in Italy and in Germany, where communism is denounced, as it is in Russia. Whether public or private, the basic reason is the growing complexity of economic life in a world where some two thousand millions of people find their lives more and more intricately related. To a greater and greater extent, individuals must adapt their actions to those of others. Those who rebel, who will not conform, are often ruthlessly

suppressed. An intricate social machine is not easily operated. Friction or stoppage anywhere brings widespread disaster. Interdependence is so great that any who suffer from what they consider exorbitant prices, or from anything else they deem unjust, not only resent it but may exhibit the most extreme intolerance. It is not to be expected that we human beings will always or even often be calm and rational. We are easily stirred by appeals to our emotions and are likely to retain our older concepts long after their usefulness has disappeared. It is hard for us to "change our mental furniture" or, if we do so, it may be under the stimulus of appeals by leaders who themselves do not or cannot understand the problems with which they are dealing. With modern devices for playing on mass emotion and with the technique of propaganda so highly developed, we are faced with a new set of conditions.

Fourth, these controls are usually on a national basis. It is true that many private organizations have world-wide ramifications. But these great concerns are incorporated in some one country by whose laws they are primarily controlled, and consequently have a certain national flavor. Their capital is often furnished by one group of nationals more than by another. Private associations are likely to rest on a national basis. The great iron and steel cartel of Europe includes concerns first

brought together as national groups, which then enter into agreements with each other. The International Chamber of Commerce is made up of different national sections. Even the Bank for International Settlements at Basle has its capital and its board of directors determined by an apportionment along national lines.

This national approach is, of course, even more evident when the collective action is public or governmental rather than private. As governments undertake more and more duties, each national area becomes more closely knit together with an enlarging number of interests which are opposed to the interests of other national economies rather than in harmony with them. Often these interests are imaginary rather than real, but many are actual, and the number of the latter is growing rapidly.

This survey brings us face to face with a situation whose aspects are far different from those confronting the world only a few years ago. Can we and will we recognize these changes and adapt our thinking to them? Our political and economic institutions are man-made, and we need not hesitate to undertake their transformation. At the same time it is folly to accept analyses and explanations suitable in past decades, but now outdated, as though they were accurate today. Any efforts we make should start with an appreciation of what our world is now, not what it used to be.

This may be illustrated in international economic relations by a brief recital of four leading theories, or "laws," that have been and still are presented as basic.

First among them is the Ricardian theory of the flow of the precious metals. Expressed in Ricardo's own words, it is as follows:

> Gold and silver having been chosen for the general medium of circulation, they are by the competition of commerce distributed in such proportions among the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed and the trade between countries were purely a trade of barter.

After Ricardo's time, bimetallism was succeeded by a more or less perfected gold monometallism in each of the countries of the Western world, so in its modern application silver should be omitted from this statement.

A second theory is the one usually advanced to explain international trade movements and is known as the doctrine or law of comparative costs. One statement of it is in these words:

> Each country produces the articles in which it has a *comparative* advantage and buys with these products other goods which it needs. It specializes in the production of those things in which the comparative cost is the lowest.

Third comes what is known from the name of one of its leading formulators as the Goschen theory of the foreign exchanges. This is not easily stated

in so concise a form as the ones just given. It is an expression of the idea that the immediate monetary barometer is the foreign exchange market and that in any market, *e.g.*, New York, the supply of and demand for drafts on foreign centers will determine the current prices for those drafts. The quotations will rise and fall only within certain definite limits known as the gold points. When these points are reached there will be a flow of gold into or out of the center in question, or at least there will be a possibility of such gold movements. But the fluctuations in the quotations, and particularly the movement of the gold, will set in motion a number of counteracting influences that will tend to reverse the whole process.

This statement is brief and to some it may be ambiguous because of its brevity, but its elaboration would take considerable space. The fourth theory to be mentioned is the quantity theory of money—a theory often misunderstood. In fact, it is many theories, the formulation varying from one writer to another. One statement (by Professor Irving Fisher) is that "the level of prices varies directly with the quantity of money in circulation, provided the velocity of circulation of that money and the volume of trade affected by means of it are not changed."

These four statements are no longer to be taken as they stand. The precious metals (or even gold) do not flow readily from one country to another.

Controls of many kinds are exercised by central banks and by governments. Restrictions by governments on foreign trade and trading render the doctrine of comparative costs an increasingly dubious explanation, unless qualified in many cases to such an extent as to make it somewhat meaningless. Foreign exchanges do not fluctuate freely between gold points influenced chiefly by a multitude of unrelated business transactions, but are subject to many controls and are often more or less successfully "pegged."

These older generalizations need not be and should not be summarily abandoned. In fact, one of the most difficult factors at present is the tendency of many superficial and excitable writers and speakers to speak contemptuously of "orthodox" economics and economists. Only too often the criticisms come from those who do not fully understand what they are criticizing. Their criticisms should, however, be carefully scrutinized and these economic generalizations modified to such extent as the conditions of the twentieth century demand. Changes have been especially striking since 1929 and even in the entire postwar period, but many of them date back much farther.

This volume is not intended as a theoretical analysis, but it is necessary to indicate a few of the outstanding matters that should not be overlooked in the development of its general theme. First is the

extent to which prediction is difficult under the new conditions. Prophecy in economics has always been hazardous, but so long as the dominant form of activity was a considerable amount of competition between large numbers of individuals the possibilities were greater than they are now. While the decisions and actions of no one person could be forecast with confidence, the erratic conduct of many would, to an important extent, offset each other and a general trend in behavior could be discussed. Something of an analogy is found in the calculations of life insurance companies. They are quite unable to forecast the length of life of any one individual but, by examining the longevity of large numbers, they are able to determine "life expectancy" at any given age.

With the concentration of economic decisions in fewer hands or minds, the task of the economic forecaster is altered. If decisions are reached by a few leaders in the tin, copper, or rubber industry rather than by thousands of individuals, anyone who ventures a prediction must do it on a very different factual base. The new economic behavior may be more satisfactory, or it may be less so, but it will be determined by quite different forces from the old. If important actions for an entire country are taken by a dictator (with or without the aid of competent advisers), the results may be beneficent or tragic as compared with those se-

cured by the old "higgling of the market," yet other considerations will determine his decisions and may alter the result. The probable future price of tin or of coffee or of silver and the volume of trade between the United States and Russia must be foreseen as accurately as possible by those whose business affairs are affected, but their analyses must be along quite different lines from those of the past.

As yet we do not know much about how to proceed. We hear much of attempts by industrial combinations and by governments to "adjust supply to demand" or to "stabilize" industries through controls devised for the purpose. As matters now stand, most of these controls will be restrictive, reducing rather than expanding output. This is not universally true, but is common enough to warrant emphasis. Also, where government action and influence are involved, political as well as economic considerations may determine what is done.

Next is the tendency toward restriction so evident during recent years in the many bilateral agreements that have been arranged between governments. These are not surprising. National economic strain since 1920 and especially since 1929 has been intense. As centralization of control has been increased, responsible government officials have been compelled to conserve national resources

of all kinds. Among these resources are the supplies of foreign exchange. A "new mercantilism" has developed under which imports have been restricted while exports have been encouraged. But the exports of one country are the imports of other countries. Many or all of these other countries are faced with similar problems and raise barriers against foreign goods, thus intensifying the problems of all.

There need be no surprise if under such circumstances any given country is tempted to emphasize "direct trading" and "clearing agreements." Thus, Germany has been hard pressed to find means of paying her external obligations—interest on borrowed funds and for imports. These obligations are due in particular foreign countries, *e.g.*, in Switzerland. An apparently helpful arrangement is for the German government to agree to import a certain volume or value of Swiss commodities only if the Swiss agree to import a specified volume or value of German commodities. Another arrangement is for one country, *e.g.*, Great Britain, to require that the obligations of British importers to pay the nationals of another country, *e.g.*, Italy, be "pooled" and used first of all to pay the claims of British exporters against Italians.

Such methods have the effect of reducing the total volume of international trading. All of us are familiar with illustrations of triangular trade and

with the disadvantages of attempting only direct exchanges. We do not need to be convinced of the losses that would accrue in domestic business if each person would attempt to balance his exchanges with each other person. During the depression starting in 1929, many attempts were made within the United States to develop these "barter" transactions between individuals. They probably relieved individual strains to a moderate extent, but their application was very limited and they could not last long nor operate on a large scale in a world where life is so intricate and where individual specialization is so highly developed as that of the twentieth century.

Slightly less obvious, but very real, are the losses that accrue when any two countries whose direct trading is larger in one direction than in the other undertake to bring about a balance. If Germany agrees to take grain and tobacco from the Balkan countries only to the extent that those countries order manufactured goods from Germany, there is sure to be a loss on one side or perhaps on both.

It is, of course, conceivable that negotiations to this effect will give an aggregate of direct bilateral exchanges larger than could prevail under involved triangular (or multilateral) exchanges. Such a result, however, is highly improbable. The tendency is for the bilateral transactions to become similar to the direct barter of primitive life. A

statement attributed to Dr. Hjalmar Schacht, formerly president of the Bank of Germany and Minister of National Economy, expresses it forcibly:

> It is incredibly barbarous to exchange machinery against grain, radio sets against tobacco, as if we were savages bartering ivory against shells, or rubber against cotton goods. Is such a system worthy of a cultivated, civilized human society?

For the purposes of this chapter, one other consequence of the changes we have described will suffice. Mention has been made of certain difficulties encountered by modern large-scale business in determining costs of production. One arises from the importance of overhead costs. The other is due to the large number of by-products and to the impossibility of devising a logical method of apportioning overhead among them. Attention has been drawn to the encouragement this gives to "dumping" goods, especially in foreign trade, and to the temptation there is to "adjust" accounts in such a way as to raise or to lower particular costs as may be desirable. The larger an enterprise and the more numerous its by-products the more these difficulties exist.

No extended argument is needed to emphasize the importance of these problems for the ordinary domestic business. Little has been said, however, of their enlarged significance in international affairs.

That they are increasingly serious when private enterprises expand into a control over any given product or group of products among a large number of countries needs no elaboration. But something should be said of the even greater consequences when governments engage in enterprise. It has already been pointed out that the tendency in this direction is very clear.

As in many other similar matters today, we may mention Russia as an illustration. In that country state ownership and operation are highly developed. All industries are under complete state control. Under such conditions, what are overhead costs? Certainly all outlays that formerly were overhead continue to belong under that heading. But to them are added many others.

It is to be remembered that what are "variable" costs for a particular corporation under a laissez-faire regime are not necessarily such from a national or social point of view. Thus, a decline in orders may lead a shoe manufacturer to lay off a number of workers. To this extent his outlay for wages fluctuates with his volume of business and wages are a variable, not an overhead cost. But no thorough analysis can stop at this point. If the workers who are discharged do not find immediate employment elsewhere, there is a period during which there is a loss that cannot be avoided. There is, of course, a reduced volume of production which is a

loss to the community. Even if those discharged find work without delay, they may be hired for tasks in which they are less efficient than before, another form of loss—a cost to society.

But this is not all. If the discharged workers do not have resources of their own to carry them through their period of idlness, they must go hungry and cold—a heavy human cost—unless given relief from some source. This source may be private charity or it may be public relief. What has seemed to be a "variable" cost because the original employer could eliminate it is nothing of the sort. It persists and has merely been shifted. Reduced costs because of curtailed orders for raw materials and other variable items are similarly shifted, not actually eliminated.

How about these costs in a thoroughly socialized state? With the entire economic life of the country closely organized, more of the "variable" costs become concentrated and are definitely recognized by the state. All or at least a greatly enlarged percentage of costs appear more clearly as persisting or overhead. They no longer seem nonexistent as they were when dissipated throughout society to be carried in various ways that failed to attract attention.

There appears in the place of a multitude of enterprises a vast organization that takes over the social burden. Moreover, since this organization is

one which conducts more or less effectively the entire economic life of the country, with its thousands of lines of production, any problems related to "by-products" are immensely magnified. There are not a dozen or perhaps a few score of articles to be considered, but all the products of the country.

Critics of socialism have written at length of the difficulties raised in determining costs when the pricing processes of a laissez-faire regime are supplanted by state control. Many of their criticisms may be exaggerated, but the point they raise is important—not as a matter of abstract speculation about a nonexistent form of society, but as a difficulty with which we are face to face. It cannot be lightly dismissed and in international economic transactions it is urgent.

Within the United States we are just now hotly debating the price charged for electric current by the Tennessee Valley Authority. With this discussion we are not here concerned except to comment upon the great simplicity of the issues raised as compared with the more intricate ones we are presenting. As a matter of accounting, a socialized state has an appalling task in ascertaining costs and in fixing prices. This is not our affair in so far as it is a purely domestic concern. It is our affair, however, to the extent that it influences the movement of goods out of the country in question.

Much has been said about the harmful effects of "protective" tariffs and the superficial or dangerous arguments presented in their defense. But even the more ardent critics of protection are conscious of the problems arising out of dumping. Our world is one in which we have developed an economic structure that is extremely rigid. Tools, machinery, and many buildings involve a very great investment and are increasingly specialized in their nature. They cannot readily be converted to other uses and may quickly become obsolete. Also, our financial structure creates difficulties. Huge issues of securities, often including an unduly high percentage of bonds, are an invitation to bankruptcy if the steady flow of business operations is interrupted. The amazing development of the modern corporation and of the security exchanges has made an increasing part of our wealth easily salable. The dangers of all this and the problems it presents have been made vivid by Berle and Pederson in their volume "Liquid Claims and National Wealth."

But this rigid economic structure and the growth of liquid claims exist in an economic world that is increasingly dynamic. As governments have undertaken the performance of more and more economic functions and as each of the various national economies has become more closely knit together, more or less in opposition to the others, certain consequences follow. If one of these national

economies believes it advantageous to sell some of its products abroad, the others cannot view with indifference the price at which they are offered. After we have to our satisfaction disposed of all the older fallacious arguments for protective tariffs, we still are faced with a new combination of factors—or, better, with a combination in which the factors are differently arranged.

Let us return to Russia. How is the export price of a particular product, say wheat, to be determined? One hesitates to mention wheat in view of the somewhat ludicrous concern a few years ago about the alleged dumping of Russian wheat on the American market. But never mind. Presumably the Russian government will not ordinarily or for an indefinitely long time wish to sell its wheat abroad at a price below or far below its cost of production. But how is the cost to be ascertained? There are, of course, the usual questions about high cost, low cost, average cost, marginal cost, and bulk line cost. But in Russia under the present regime wheat is one of thousands of "by-products." To a far greater degree than in the past, the costs of producing everything in Russia have been consolidated and must in some way be allocated among the multitude of products. Moreover, the government can do this in a quite arbitrary manner. This is not in any sense an endorsement of the extravagant criticisms that have been uttered

against Russian methods. It is a statement of a real problem that may well baffle the most conscientious and intelligent officials and is not confined to any one country.

In so far as the government may determine or even influence the wages of farm workers, the cost is affected. The apportionment of taxes, the terms on which funds are loaned for farm development, the prices charged for machinery used on the farm—all these and many other items are involved. A laissez-faire regime is so complicated as to perplex the most acute economists. Highly developed state control is even more baffling. We have remarked that the most intelligent and conscientious administrative officials will find the problem difficult. Of course, they will, since the allocation of overhead costs is impossible on a strictly logical basis even in a small and relatively simple plant. If public officials are not able and careful, the price of wheat, if it is related to cost at all, may be adjusted, within widened limits, to almost any desired level.

What is true of wheat is, of course, true of any other product, and what is true of Russia is true everywhere in varying degrees. And it is closely related to monetary systems and to controls over foreign exchanges. Let us assume that costs and prices have been satisfactorily determined in Russia. Let us further assume that a country ordinarily importing wheat but raising some wheat

within its own borders is not concerned with "protecting" its farmers in the usual way, but merely with preventing the arbitrary or sporadic dumping of Russian wheat in such a manner and to such an extent as to demoralize local wheatgrowing.

The important thing for the importing country is the price at which the Russian wheat is offered in the domestic currency, say in francs if the country is France. Russian costs and prices within Russia are expressed in Russian money, rubles. How are these prices to be converted into francs? There is an official rate of exchange which has varied from time to time, but this ratio is not helpful, since in the foreign exchange market rubles are not bought and sold freely and there is little or no relationship between internal and external prices for Russian products.

Russia is a particularly good illustration of the point we are discussing, but similar procedures are appearing everywhere, differing from Russia and from each other chiefly in detail or in degree. A German practice may be mentioned. A German corporation may secure a certain foreign order only in case it bids as low as, say, \$1,000,000, but this may be so low that it will not cover the cost of manufacture and delivery. After conference with government officials, the bid is made at the losing figure but with permission to use the \$1,000,000 when received to purchase in New York German

securities and resell them in Berlin. Because of the strict control of the German government over the foreign exchanges these securities have been quoted at a higher price in Berlin than in New York. The profit on the security transaction offsets or more than offsets the loss on the export order. In this case the loss is presumably borne by the American investor.

More to the point is the widespread practice in Germany of taxing industry in general to raise a fund for subsidizing exports. In reply, the United States imposes a countervailing duty against products presumed to be subsidized which is removed only on assurance from the German government that no such aid is being given. To the extent that these subsidies are granted, the German national economy is being called upon to aid particular industries. Certainly the doctrine of comparative costs must be modified if it is to be used at all as an explanation of such exports.[1]

But "everybody is doing it." In the United States we grant special railroad freight rates on goods destined for export. We loaned government money at low interest rates for the construction of merchant vessels that are to fly the American flag and now we frankly grant subsidies. Favorable mail

[1] Frequent references are made to the doctrine of comparative costs since this is still ordinarily presented in discussions of foreign trade. Attacks upon it as a theoretical explanation are, of course, growing in number and are increasingly effective.

contracts have been granted to aid our shipping. In fact, all over the world the numerous merchant marines are heavily subsidized. Nor should we in the United States forget the urgent desire of many that the export of farm products be aided by subsidies of one kind or another.

If the argument presented in this and the preceding chapters is even approximately correct, we are clearly confronted with a new set of conditions. Sweeping changes have occurred. We do not characterize them as "inevitable." Our social institutions are man-made and presumably man may change them. But it will not do to assume that so powerful a movement is easily to be controlled or reversed. Nor is there any reason for denouncing it as entirely bad. Controls have come and as yet are continuing. Some may be modified or abandoned, but as yet the signs of such a reaction are not clear. Instead, the tendency is for their enlargement.

Chapter VI

IMMEDIATE PROBLEMS

There can be no clear-cut distinction drawn between those difficulties which have arisen from more immediate and, we may hope, temporary influences and those which may be traced to long-time developments. Nevertheless, any helpful analysis must have at least a semblance of arrangement, and for convenience the causes of our current troubles may be grouped under three headings: (1) those arising out of the depression; (2) the disturbed economic relations of the postwar period; and (3) the operation of long-time influences, some of which have been mentioned in preceding chapters. In this chapter the first and second of these will be considered.

No attempt will be made to state the causes of the depression starting in 1929. The literature on the subject is already huge in amount. We shall accept the depression as a fact and confine ourselves to a statement of the difficulties raised for various groups of countries.

One of the serious facts that had to be faced was the very abrupt decline in prices. It is true that there had been a crisis and a price decline in 1920,

but they were short in duration as compared with the later one. There were bankruptcies, reorganizations, and readjustments, but as we look back upon them now they seem relatively unimportant. The price fall beginning in 1929 and extending in general until 1932 was much more serious.

Two comments may be made by way of introduction. It is frequently and truthfully said that it matters little whether prices are high or low and that changes in price levels are unimportant, provided these changes occur uniformly among all goods and services. But they never do change uniformly. The price of any given commodity, say wheat, is determined by a very complex set of influences relating to its supply and to the demand for it. These determining forces are very different for another commodity such as steel rails. If there are general forces at work such as those operating during a period of prosperity or one of depression, the effects are not the same. Some supplies are subject to controls and others are not. The demand for some commodities is quite elastic, *i.e.*, the demand is sharply curtailed if prices rise and expands if prices fall. For other commodities the demand is quite inelastic, *i.e.*, it fluctuates to only a moderate extent with changes in price. The demand for some articles, especially consumers' goods, is quite direct, while that for others, such as machinery, is indirect.

These and many other complications are familiar to all students of economics and this is not the place for their analysis. We may emphasize only one generalization that is fairly safe. Speaking quite broadly and with a realization of the numerous exceptions and qualifications that a more elaborate study should include, it may be pointed out that when prices decline certain groups are affected more than others. One group is those who raise or deal in foodstuffs and raw materials whose prices ordinarily fall more than do the prices of manufactured goods. Another group is debtors, whose obligations to pay are expressed in monetary terms and whose ability to pay monetary units is sharply reduced when prices decline. Still another is workers who may be discharged. Unemployment becomes acute not only in connection with the production of raw materials and foodstuffs, but even more in the capital goods industries. Prices in the latter group may be maintained but it is often through the curtailment of supply which means a reduction of output and the discharge of workers or their part-time employment.

This lack of uniformity in price movements is one fact to be emphasized. The second is the abruptness of the price decline since 1929 and, even more so, the decline in the United States in 1937. If a fall in prices comes gradually, business is able to make many adjustments, one after the other, with a

moderate amount of strain. If the fall is considerable and comes very rapidly, as it did during the periods in question, these adjustments are difficult or impossible and the catastrophe is serious.

Some areas in the world are predominantly debtors and others creditors. Some specialize in the production of raw materials and foodstuffs, others use their labor and capital largely, though none of them entirely, in manufacturing. No one country falls exclusively within any of these groupings, but a rough classification is possible.

Thus, some countries are definitely and on the whole in a debtor position. Germany is clearly in this group. Even after her escape from the impossible reparations demands, the obligations of the German government and people to the outside world were heavy. For a number of years, especially after 1924, external payments were maintained largely by additional borrowing, which was merely a shifting of the debt. When prices sharply fell with their countless repercussions on business throughout the world, the situation became an unbearable one. New foreign loans had stopped and the burden, already too heavy, was sharply increased. With prices lower, an enlarged volume of exports was necessary if obligations were to be met. Some increases were, of course, possible but other countries also were facing serious difficulties and trade barriers were raised. Many foreign claims were due

on demand or on short notice and creditors, some of whom were under pressure, became insistent on payment. Other claims in the form of long-term bonds or equities were offered for sale on the world markets. It is not difficult to see the consequences that were bound to follow.

Emphasis on the German predicament is not an approval of much that occurred. The picture is not a pretty one. Some debts that could have been paid were defaulted. Unscrupulous methods were in many cases employed to evade obligations that could have been met. Political considerations and broad government policies became involved. But after all these have been recited we are still left facing a basic fact. In the face of an extreme and abrupt decline in prices, the Germans were confronted with an impossible task.

They did what is to be expected under such circumstances. They endeavored to push their exports and they placed restrictions upon imports. To the extent that their obligations were to be paid, this was their only possible procedure. It is true that Germany thereby added to troubles elsewhere, but other countries—even those whose nationals had claims against Germany—were doing the same, their procedures differing in form but not in their general nature. Germany lost most of her gold, established strict control over dealings in foreign

exchange, subsidized her exports, and dumped her goods abroad.

Other debtor countries faced similar problems—for example, Australia. Her difficulties were those of a debtor and were accentuated by the fact that her exports were largely raw materials, *e.g.*, wheat and wool, whose prices had fallen heavily. She, too, pressed exports, curtailed imports, and in other ways undertook to protect her economy against outside pressures.

But how about the creditor countries? The United States is the outstanding one. Prior to the World War she was a debtor (net) because foreigners had invested heavily in her enterprises. Each year interest was due abroad on these investments and, because the United States then had no merchant marine, considerable additional amounts had to be paid to the foreign owners of shipping for carrying American goods. Combined with miscellaneous other items, the result was a balance which called for an excess of exported over imported commodities. To this the American economy had been adjusted.

Within a very few years—from 1914 to 1919—there came a tremendously increased pressure for more exports and at a time when imports were restricted. The excess of exports grew. Securities that had been sold abroad were bought back, or "repatriated," and Americans invested heavily in

new foreign issues, notable among them during the war period being the advances by the United States government to a number of foreign governments. Also, large amounts of gold were imported. After the war ended, government advances were stopped, but private purchases continued on a large scale and indiscriminately. Exports continued to exceed imports. The economic organization of the United States was more and more geared to the production of goods that went abroad. No attempt was made at an adjustment to the altered situation and perhaps no orderly adaptation was possible.

In any case it did not occur. A decline in the purchase of foreign securities started in 1928 and those people in the United States who had large economic interests in foreign countries were in a serious situation when the storm broke in 1929. Agricultural and industrial interests alike made frantic efforts to sell their goods abroad as well as at home and bitterly opposed the competition presented by imported commodities. Exports were pressed and imports were restricted. The Smoot-Hawley Tariff Act was passed in 1930. Great Britain suspended gold payments in 1931 and the United States followed in 1933.

In other words, the greatest creditor country in the world followed much the same practices as did the debtor countries. Others, like France, Great Britain, Italy, etc., whose positions were somewhat

intermediate, did likewise for reasons that varied from one to the other. Everywhere, however, the procedure was an attempt to go on selling but to restrict buying. The reasons given were often superficial or entirely fallacious, as were those advanced in support of the silver policy of the United States. But the net result was to restrict world trade. Reparations claims vanished. With very minor exceptions, the "war debts" exist at present only as bookkeeping entries and will come to the front again, if at all, only in a sharply reduced amount. Private investors in foreign securities have taken huge losses.

This recital of the effects of the depression could not be divorced from the general postwar setting. But there are certain aspects of that situation which call for emphasis. The first is a brief consideration of the way in which the cost of the war was met. Often we are told of its huge losses, but the picture is usually distorted in two particulars and these distortions call for correction.

One error in presentation is a relatively minor one. It is frequently said that a war is fought from accumulated resources. To a slight degree this is true. At the beginning of a war there are on hand certain stocks of food, clothing, guns and ammunition. Much more important, there are the farms and the factories from which a continuing stream of the needed supplies may be secured as the fight-

ing goes on. Supplies cannot be piled up in amounts large enough to last long in a modern war of any great length.

A more serious error is the insistence that the cost of the war was shifted to future generations—that the practice of borrowing to meet the tremendous outlays was one which in some way saved those who lived during the war days by shifting the burden largely to their descendants. This calls for correction. We are carrying today a heavy load of troubles that may undoubtedly be traced to the World War of twenty years ago, but the nature of the problems should be clarified.

It was not possible for the combatants to rely for long upon supplies produced before the conflict started. They were entirely inadequate for so vast a struggle. But it was even more impossible to use food, clothes, guns and ammunition that would come into existence years later. The labor and the capital required had to be utilized *at the time*. The current streams of world production had to be diverted immediately to the growing and to the manufacture of what was needed by the armies. The war was necessarily fought with the income of the war period—not with later income. In this sense, the war burden could not be shifted to later generations. We of today cannot bear it if we would.

Certain qualifications should at once be mentioned. During the war there was great destruction

of buildings, railways, roads, etc., and the restoration of this property was a postwar task. These losses occurred chiefly within the areas of active conflict—Belgium, northeastern France, Poland, Rumania, East Prussia, etc. Then, too, the exigencies of the times caused a neglect of depreciation charges, and in 1919 it was necessary to start repairs to bring factories, roads, and buildings back to their prewar condition. Finally, many stocks of goods were depleted and a little time was needed to replenish them.

Tragic as were these losses, they were relatively unimportant and in only a few years this restoration was largely completed. A bounteous nature and large numbers of intelligent workers under competent direction soon completed the task. But something has persisted. The actual destruction of capital, when viewed with a little perspective, was not significant. The war was fought by the diversion of an important fraction of the world's income from its ordinary uses to the prosecution of the conflict.

What has been left and is in large part still with us may be discussed under two headings—finance and trade. In finance there had come into existence a new and highly involved debtor-creditor relationship. Governments had met their problems in part by taxation but still more by borrowing. They had sold their bonds at home and abroad. They had

borrowed from their respective central banks, giving both long-term and short-term promises to pay. Because conditions were chaotic, long-term obligations were the more difficult to sell and the short-term ones often predominated. In other words, the so-called "floating debts" increased. Since the public were not ready voluntarily to save and buy the government promises, the procedure rapidly became one of inflation. By methods we need not pause to describe, prices rose, forcing the general public in each country to economize involuntarily. The necessary saving by individuals was not avoided but was forced upon them. Exceptions existed only in those countries whose governments were able to raise some funds by borrowing abroad, which meant saving, voluntary or involuntary, by the people in the countries from which the financial assistance was secured.

Thus, government debts grew. Of course, for every promise to pay, for every government obligation, there was its owner to whom future payment was pledged. Also it is to be noted that a government's ability to redeem its bonds and notes rests on its ability to collect the necessary amounts from the public through taxation. This same public, directly or through its financial institutions, *e.g.*, the central banks, owned the claims on the government. The public, as taxpayers, were debtors and, as owners of the securities, were creditors. But,

accurate and superficially simple as such a statement undoubtedly is, its simplicity is deceiving. The government debts were huge, and to devise tax systems adequate to solve so great a problem was quite impossible. In country after country, by further inflation, by repudiation, and by devaluation, many of the promises were broken. In some countries the forms were maintained, but everywhere, to a greater or less degree, the investors, the creditors, took losses. Unfortunately, still more may come sooner or later.

Governments were not the only borrowers. Banks issued more notes and greatly increased their liabilities. As prices rose, corporations issued stocks and bonds with an ever-enlarging face value, assuming liabilities to pay interest (and, if possible, dividends) in greater amounts. Private individuals borrowed more and more, often mortgaging their assets to furnish security. Within each country there appeared an expanded and highly involved mass of indebtedness—so large that many of the debtors found it quite impossible to meet their obligations.

This was the internal situation which became fantastic in Russia, in Austria, in Hungary, and in Germany. It was less so in Italy, in France, in Great Britain, and elsewhere. But everywhere, even in the United States, there were bankruptcies and reorganizations on a large scale when prices sharply fell

in 1920. Conditions soon improved, but the air was not cleared, and the load remained a heavy one until 1929, when the great collapse came. In this period, which in the United States we carelessly designated the New Era, recovery seemed possible, but the complicated structure of indebtedness had not been sufficiently cleared away.

In the international field, also, debts were incurred. Borrowing abroad during the war, the imposition of reparations claims on the defeated belligerents, and a vast amount of new foreign flotations, especially from 1924 to 1928, are the chief incidents. Their main features are familiar to all students. We may merely observe that here, too, there is a credit for every debit and the problem was that of the ability of the debtors to make payment to the creditors. As in internal financing, the situation was confused. Some countries, viewed as economic entities, were both debtors and creditors. Some, like Germany, were heavily indebted to the rest of the world. Others, notably the United States, were heavily creditors. But all countries of the Western world were involved.

In some of its aspects this situation was financial and could be solved, if at all, only by defaults. But some relief could have been secured if appropriate price and trade adjustments could have been made. Internally, many debtors could have met their obligations if prices had not fallen and if goods

could have been freely marketed. Thus, the farmers of the United States were handicapped by the decline in agricultural prices. Those who were burdened by mortgages and by notes at banks could have kept their promises if they could have continued to sell their products at the prices and in the amounts prevailing in 1929, or if the prices they paid for their purchases and their debt charges had correspondingly fallen. But there was no such adjustment to help them. Debt charges remained fixed and there was only a moderate reduction in what they had to pay for clothing, machinery, etc. Also, their problems were complicated by actions taken in other countries. Tariffs and other trade restrictions against agricultural products were raised in Germany, in France, in Italy, and elsewhere, as the people of those countries undertook to become self-sufficient in food or as the governments yielded to the pressure of agricultural groups.

Especially in the field of international trade were the problems insoluble. We might, of course, content ourselves with a general denunciation of the spirit of nationalism and speak of the greed of various pressure groups, each seeking a selfish gain. But this only touches the surface. Our economic world being what it is, we may not ignore the fact that all of us, or nearly all of us, secure our incomes by selling our goods or our services in as large a volume and at as high prices as we can get. Our

economic welfare is highly concentrated on our ability to make money through sales.

This means that markets for goods and for services must, if possible, be kept open for ourselves and that we are always tempted to do what we can to debar competitors. Moreover, markets are not easily secured. Their development usually comes through long effort and often only with heavy expenditure. There are always ups and downs, but so long as these are not too extreme or too abrupt the necessary adjustments can be made with a minimum of friction and of loss.

In 1914, international trade was flowing in well-defined channels. The United States, as already pointed out, had an excess of exports. The United Kingdom had a large excess of commodity imports but with the aid of invisible items was adding year by year to its foreign investments. To a lesser degree the same was true of France and of Germany. Other countries were similarly adjusted to their economic relations with the outside world and their trade routes had developed accordingly. Shifts were always occurring but they were relatively minor ones.

Within the brief period from 1914 to 1919 these relations were abruptly and seriously altered. Germany, from being a creditor on a modest scale, became the world's great debtor country. The French lost a large fraction of their investments in

Russia and in the Balkans. The United States suddenly shifted to the position of the world's largest creditor. These changes, if the new obligations were to be met, called for an abrupt rearrangement of the channels of trade. Had they occurred, the United States would have suddenly begun to receive a huge excess of imports over exports. Germany would have enormously expanded her exports. Each of the other countries would have made corresponding changes in its relations with the outside world.

Such sweeping adaptations to the new situation were quite impossible. If they had occurred, some relief would have come. But no seller would willingly relinquish markets abroad or at home. He continued, frequently with government aid which included subsidies, to push his sales in other countries, and often he demanded tariffs and other trade barriers against imported goods that competed directly or indirectly with his own. Relief through the diversion of trade into new channels could have been only moderate in amount. It could not have been adequate. But little or no effort at adjustment has been made. Instead, the debtor countries have been denuded of gold. Nearly all countries have suspended or modified gold payments, foreign trade has sharply declined, and a huge volume of public and private debts has been defaulted or repudiated.

This brings us to the situation as it stands today. We say there are great international problems calling for solution. What are they? The answer depends, of course, upon what we are seeking. To those who desire the development of economic nationalism, the problem is that of trying to increase the self-sufficiency of each country. This group and the many others who desire to have the United States economy "protected," as they call it, devote their efforts to minimizing imports and in general to reducing dependence on other parts of the world. Like-minded groups in other countries follow similar policies. Others believe in maximizing international trade and perhaps investments abroad.

But at this point we may concentrate on results presumably desired by all. They are at least two in number and arise from the common belief that less irregularity, more steadiness in international economic relations would be generally helpful. They are, first and foremost, a better equilibrium for each country in its international balance of payments; and, second, a greater steadiness in the foreign exchanges, *viz.*, some kind of monetary stabilization. The two are closely related and the second cannot be secured without the first. Probably the first cannot be attained without the second.

There is much confusion about the balance of payments. For any given country, *e.g.*, the United States, it is the relationship between the outgoing

items such as merchandise exports, payments due to Americans for carrying foreign goods in American vessels, expenditures by foreigners traveling here, etc., and on the other side, imports of merchandise, payments to owners of foreign vessels for carrying American goods, expenditures of American tourists abroad, etc. The list of items is long on both sides. Of course, there is never an exact equilibrium, but too great an excess in either direction should be avoided. If at any time there is an excess of exports (of all kinds), say from the United States, the difference can be met and steadiness maintained only if Americans are willing to accept some kind of promises to settle later or to receive importations of gold. The promises are of many kinds. They may be past promises of Americans to pay abroad, such as stocks, bonds, and mortgages which are repatriated, *i.e.*, bought back by Americans, or foreign stocks, bonds, and mortgages or short-term credits, perhaps merely open bank accounts. There are many varieties of promises but they must be taken if the excess of exports is to continue.

An alternative is to accept imports of gold to cover the balance, and in recent years the gold flow has been great. But the aggregate amount of gold for such purposes is only moderate and quickly leaves the debtor countries without the yellow metal, often with the fundamental problem of

balance unsolved. This is well illustrated today by the position of Germany. The country receiving the gold may acquire unnecessarily, and perhaps embarrassingly, large amounts. This is true of the United States at the present time. Ever since the end of the World War gold has been coming in, bringing with it the possibilities of domestic inflation but leaving the balance of payments still out of equilibrium.

As before, we may emphasize Germany and the United States as illustrations. When the Treaty of Versailles became effective, the German economy found itself with a greatly reduced capacity to export goods and services. The colonies were lost (although their value under the circumstances is dubious) and, much more important, a large area of home territory with a large earning power was also lost. The German merchant marine was confiscated and obstacles were raised by other countries against German goods. Also, considerable fractions, perhaps three-fourths, of German foreign investments had been sold or confiscated.

At the same time, the Germans were confronted with the demand for large reparations payments long left vague but in May, 1921, set at a figure that called for remittances at about $750,000,000 (old weight dollar) per annum. For a long time there was no way of checking the importation of foreign goods. There was an insistence on enormous

external payments which, in the last analysis, was a call for large commodity exports from Germany, but at the same time German productive capacity was reduced and numerous obstacles were imposed to such exports as would otherwise have been possible. The equilibrium was badly upset. Gold flowed out of Germany, the mark depreciated abroad, internal prices rose to fantastic heights, reparation payments were reduced, and the Ruhr was occupied. In 1924 the Dawes plan and in 1929 the Young plan, by reducing the reparations claims and establishing certain controls over them, eased the situation to an important extent but far from enough, and the general economic collapse in 1929 brought these payments virtually to an end. From 1924 to 1928 external payments had been possible only by new borrowings, *i.e.*, new promises to other creditors brought funds for delivery to the Allies.

Much more could be included in the recital. Other influences might be added to the complications. But, regardless of the causes and of the responsibility for them, there remain the fundamental facts of an upset equilibrium and of a consequent economic strain upon the German people. The equilibrium is not yet restored and today the Germans are still struggling with the task in the face of bitter criticisms by outsiders, who strenuously object to many of the methods employed. Foreign investors have lost heavily on their

German holdings, banks in other countries have not been able to withdraw many of their funds from German banks, and the gold holdings of the Reichsbank have for a long time been less than one per cent.

As a great creditor country, the United States is in just the opposite position, but with the same problem of a balance of payments not in equilibrium. The American government and the American people accumulated heavy claims on the outside world and for some years continued to buy new promises to pay instead of taking payments. Instead of aiming at the excess of imports by which alone the situation could have been steadied, the policy (or at least the practice) followed was just the reverse. Demands for payment of sums currently due were vociferous and at the same time every effort was made by private interests with governmental assistance to maintain or even to increase commodity and service exports.

Collections of amounts due on funds invested abroad and for large current exports would have been possible if imports had grown. Instead of encouraging an inward flow, the American public policy has been the reverse. Several illustrations may be given. One form of (invisible) import is the remittances of immigrants into the United States who send funds to their relatives and others abroad. Our Department of Commerce estimates that in

1920 this item amounted to $700,000,000. Since that time we have restricted immigration and many who had come to the United States temporarily have left, and there was a continuous decline in these remittances to a new low level of $115,000,000 (net) in 1935.

Formerly an important item on the import side was the sums annually paid to the owners of foreign vessels carrying American goods. From the Civil War to the World War the United States had practically no merchant fleet. But American vessels built during and since the World War are carrying a large part of our trade and, with the additional influence of a reduced trade volume, the amounts involved each year (net) became quite minor. For the years, 1923–1925, both inclusive, there was an almost even balance. More recently the excess of the amounts paid by foreigners to Americans has increased until it was $61,000,000 in 1936 and $103,000,000 in 1937. Also, much financing formerly handled in foreign centers has been transferred to the United States, reducing the amounts annually owed to foreigners as commissions and premiums.

Most important of all, restrictions have been placed upon imported commodities by raising our tariffs. In 1921 there was passed a temporary tariff law which was replaced by the Fordney-McCumber Act of 1922 and followed by the Smoot-Hawley Act

of 1930. Also, riders were attached to other legislation providing for certain special duties.

With the effort to maintain and to increase exports and to collect debts offset, or more than offset, by various restrictions on imports, the United States "carried on" because Americans bought a large volume of foreign promises to pay or made heavy "direct investments" in foreign properties. With the curtailment of these investments in 1928, the lack of a dependable equilibrium appeared. By 1932 the excess of exports (both commodities and services) over corresponding imports was only $131,000,000 as compared with $3,065,000,000 in 1919 and $725,000,000 as recently as 1928. For 1935 it was $183,000,000, only a moderate rise from the low of $131,000,000 in 1932. In 1936 there was an excess of imports amounting to $153,000,000, and in 1937 a similar import excess of $24,000,000.

Still more serious are recent capital movements. For reasons not all of which are clear, there appeared, especially in 1935, a large inflow of foreign funds, much of it placed in the United States on a short-term basis. This amounted (net) in 1935 to $1,538,000,000, of which $1,076,000,000 was of the short-term variety. It was more than offset and perhaps largely paid for by an inflow of gold amounting to $1,739,000,000 and of silver amounting to $336,000,000, or a total of $2,075,000,000.

In 1936 and 1937 these net inflows of capital were $1,165,000,000 and $817,000,000 respectively.

That this is a highly unstable situation needs no elaboration. The importation of so much gold gives to the United States in April, 1939, a total of nearly $16,000,000,000, or about 57 per cent of the world's supply of monetary gold held by central banks and governments. So long as it remains there is serious danger of a credit expansion based upon it, and most observers doubt the efficacy of any controls that may be attempted by the government and by the banks. Devaluation of currencies by other countries or a more peaceful political situation in Europe may bring a rapid withdrawal of foreign funds and a heavy outflow of gold. If, in the meantime, business and banking operations become adjusted to the pressure of that gold, its exportation will have widespread deflationary effects and, in any case, will bring important psychological reactions.

Additional illustrations of instability could be added by reference to other countries. Prior to 1931, French funds in large amounts were placed in Great Britain, whose bankers loaned them on the Continent, notably in Germany and Austria, ostensibly on short-term account but actually for uses which made a rapid withdrawal quite impossible. With the failure of the Austrian Kreditanstalt in 1931, the French called for their money and the

weakness of the situation appeared. Only by periodical "standstill" agreements between the German banks (the debtors) and the foreign creditor banks was even a semblance of order maintained and some of the obligations paid. A few years earlier, temporary financial relief was given to Austria and to Hungary via the League of Nations, but nothing was done to open trade channels in order that these two small countries might achieve a more reliable economic relationship with their new creditors.

It would be a mistake to say that no progress at adjustment has been made. Even the gold movements have settled some of the claims. Through the painful and, at times, disagreeable and dishonest procedure of default and repudiation, some of the international debts have disappeared. Reparations claims will probably not even be mentioned again.

Most of the intergovernment debts, *e.g.*, the amounts due the United States government, will never be collected though they still remain on the books. Private investors in foreign securities have taken many losses and will probably take more.

But, with all these allowances, it must be said that, as yet, postwar adjustments of even a quasi-permanent nature have not taken place. To the persisting lack of equilibrium in the various balances of payments there has been added since 1931 a new depreciation of currencies. International trade has revived slightly but not much. There are

two main aspects for attack—trade and currencies. But those who urge currency stabilization as a necessary preliminary to trade revival are told that no currency can be held at any decided level unless trade understandings of a dependable sort can be reached. Those who propose such understandings as the first step are informed that they are impossible until there is adequate assurance that currencies will not be further depreciated.

Progress must be slow. For a time after 1933 the position of the gold bloc countries of the European continent was uncertain. No matter what the merits of maintaining the gold standard in its traditional form with no reduction in the weight of the various currency units, the changes made elsewhere and especially those by Great Britain and the United States put the gold bloc under an impossible strain, and soon they were compelled to follow suit. Whether the devaluation and like procedures have reached their limit is not clear. Government expenditures are rapidly mounting and government debts are increasing. Note issues of the Bank of France have risen from 68,571,000,000 francs at the end of 1929 to 125,352,000,000 on May 11, 1939. Note issues of the Bank of Germany increased by 50 per cent during 1938, an amount not to be fully explained by the enlarged area of the Reich, especially if there be added to the account a reference to the miscellaneous substitutes for

ordinary money now in use. Note issues of the Bank of Italy have not been reported for more than a year.

There has been a civil war in Spain. An undeclared war is still in progress in the Far East. Austria, Czechoslovakia, and Memel have been absorbed by Germany. Italy, with Ethiopia undigested, has occupied Albania. Tomorrow . . .

Chapter VII

LONG-RUN PROBLEMS

Throughout the world the depression seemed to be lifting in 1936. There was a sharp reversal in some countries in 1937, but at the end of 1938 the outlook was again more cheerful. Business reorganization was going on, production in many lines was gaining. Employment was growing, although many millions still lacked work. Unfortunately, some of the stimulus came from an emphasis on rearmament or increased armament and some from other government activities which may not continue indefinitely. Nevertheless, there was a gain.

Also, some of the dislocations traceable to the World War have been removed. Reparations claims have disappeared, although not without a heritage of ill will. Payments on the "war debts" have largely ceased and, if ever renewed, will be greatly reduced. Private obligations have been defaulted and many reorganizations have occurred. Many loans floated abroad have been paid outright, while others have been repatriated, some with heavy losses to the original investors. A considerable amount of readjustment has actually occurred and,

as time passes, still more may reasonably be expected. International trade has made some gains.

The shadows of another war overhang, with all that they imply, and new strains, worse than the old ones, may appear at any time. But, in the absence of a new conflict, we may fairly look forward to the ultimate disappearance of the more immediate influences that have made for strain.

The difficulties presented in the preceding chapter may be on their way to solution. In time, the lack of equilibrium traceable to the depression and to distorted postwar relationships may disappear. But there are still left for consideration the problems raised by these long-time changes to which reference has been made. No survey can stop without considering them. We live in a world that has greatly changed, partly because of the depression and the war but even more for other reasons.

If it be true that a certain amount of guidance through conscious effort is possible, any effort we make should show an appreciation of these changes of the past and their apparent future direction. Detailed planning for the world as a whole may be quite beyond our powers but, so far as possible, the various efforts made should not be so contradictory that they will nullify each other, and they should be consistent with some general idea of the kind of world we live in and the kind of world we desire.

First among these conditioning factors is a rapidly changing technology. A few years ago, much was heard of the Second Industrial Revolution. New Era enthusiasts claimed too much for it but, having admitted the exaggerations, there is no denying that in recent years technological changes have been profound. Technocracy has done and is still doing a service in emphasizing the rapid growth in human control over natural forces and the higher standards of living thus made possible. The peculiar inability of technocrats and of many engineers to appreciate the distinction between physical and chemical advances, on the one side, and the difficulties of economic and political adjustments, on the other, have weakened their influence, but they have effectively dramatized the possibilities of a better life and have strengthened the belief that the social as well as the more mechanical difficulties can and should be overcome.

Among the technological changes are the substitution of machines for human labor; the concentration of populations in industrial centers, now partially offset by a shift in the other direction with the growing use of oil and of electric power; an increasing difficulty in maintaining stability in economic relations as people shift back and forth and as prices move up and down; a constantly broadening base for many of our economic activities, which are no longer confined to local areas but

ramify over entire regions and, in many cases, over a large part of the world; a rapid growth in overhead costs; an increase in dumping, especially in foreign markets; and a tendency for private business to cooperate, to consolidate, to merge, or to form larger and larger cartels. These are but a few of the changes.

Also, the tempo of economic life is constantly quickening. Changes come more and more rapidly. New types of machinery and improved processes render older equipment and methods obsolete so rapidly that business uncertainties are multiplied. "Business has wings" is the characterization employed by one observer. Well-established markets are suddenly lost to more enlightened or more aggressive competitors. The coal industry is threatened by oil and by water power; aluminum displaces copper in many directions if the price of copper rises too high; rayon competes effectively not only with silk, but with cotton and wool. Even where the exports of a given country, such as those of Japan to the United States, may not greatly increase as a total, their changing quality, *e.g.*, less raw silk but more cotton cloth and slide fasteners, may suddenly raise real problems for the American producer of these articles.

Such rapid shifts as these create a vast amount of uncertainty and instability. Accountants have been troubled by the problem of depreciation, *i.e.*, how

to "write down" the value of equipment as it wears out. But now their difficulties have been multiplied many fold by the growing rapidity of obsolescence, the suddenness with which machines, tools, and even buildings decline in value to the owner because more modern types make the older ones obsolete or new products destroy markets for the older ones. While this puzzles the accountants, it should be remembered that, no matter how well they may perform their task, they are merely providing a technique by which those whom they serve are furnished with a clearer financial picture of business conditions. The real difficulty is still left—that of carrying on economic operations with a minimum of irregularity and with receipts above expenditures. And dependent upon the successful operation of business are the rest of us—the hundreds of millions of people whose income and security are so disastrously impaired if business is interrupted.

Another change is the decline of competition. Tradition and legislation in such countries as the United Kingdom and the United States assume or perhaps try to enforce competition. In many lines it persists. In others it disappears for a time, only to reappear in new forms. But it is not inaccurate to say that the general tendency is clearly toward the organization of larger and larger groups of bewildering variety and toward the growth of monopolistic

controls. The issue so frequently presented as a choice between socialism and individualism is more often between government ownership, operation, and supervision as contrasted with a high degree of private cooperation or outright monopoly.

Next is the "decline of *laissez faire*." Some enterprises, such as the construction and operation of the Panama Canal, seem too large or too difficult for private enterprise. Others, if left in private hands, allow such great control over economic life that government ownership or operation, or at least a large amount of government control, is demanded. At times private enterprise cannot unaided cope with extraordinary emergencies. Illustrations from the United States are the railroads during the World War, and many railroads, banks, etc., during the great depression. Some activities desired by the public are not directly remunerative or will yield a return, if at all, only after so long a time that private initiative cannot be relied upon. A growing sense of responsibility for the unfortunate or incompetent members of the community results in the demand for social services which can be effectively rendered only by governments. More and more cooperation is called for, and much of it is through entrusting new duties to governments. *Laissez faire* has not disappeared, but in many directions it has clearly declined.

There is no need here to lengthen the list of changes nor to elaborate any of them. Many decry them but few, if any, deny their appearance. Even those who declaim most bitterly against some of them, *e.g.*, the growth of government controls, are quick to ask for government aid when they are hard pressed or when they believe such help will bring larger profits. Subsidies, protective tariffs, and government loans are called for often with a rather naïve expectation that governments can give such assistance indefinitely without a public demand for controls.

These developments and others affect world business in many ways. One is in the spread of industrialization. Years ago, certain countries, such as Great Britain, specialized in manufacturing and with but little competition from other areas. Raw materials were imported from distant parts of the earth and in finished form were sold throughout the world to such advantage that from the gains the British could buy 50 or 60 per cent of their food and, in addition, accumulate large foreign investments. Since about 1870 the tide has turned. Other countries, particularly Germany and the United States, became effective industrial competitors, and the traditional free-trade policy of Great Britain was soon challenged by those who called for "tariff reform" and "imperial preference"—a movement

temporarily overwhelmed by the electorate but later victorious.

The spread of world industrialization, which had been proceeding at a moderate pace, quickened during and since the World War. In Asia, in Latin America, in Russia, and in many other countries of Europe that formerly emphasized agriculture, manufacturing has rapidly grown. Raw materials are, to a greater extent than in the past, manufactured near the areas where they are raised, *e.g.*, in the southern part of the United States, or nearer the markets for the finished goods, as in Japan or in India. Dumping has increased and, with industry and finance so involved, is harder than ever to prove and to prevent. Older manufacturing centers, such as Birmingham and Manchester or New England, face new pressures.

Agriculture also has altered. Modern machinery and the new techniques developed by experts, including the agrobiologists, have made possible larger crops with less outlay. Better transportation carries raw materials and foodstuffs more quickly and at lower cost. The growth of nationalism and a passion for self-sufficiency, which have been intensified by the lessons of the war and the fear of wars to come, have led countries that formerly imported food and raw materials to develop their own supplies. France formerly imported wheat but recently became an exporter on a small scale. Italy

fought the "battle of the wheat" and has somewhat reduced her dependence on outside supplies of food. The Germans feverishly seek to discover and develop substitutes of all kinds.

Producers organize great combinations to steady their markets. With greater or less or perhaps no aid from governments, there appear huge combines in steel, in electrical equipment, and in hundreds of other lines, the activities of many spreading over a large number of countries. Cartels or joint selling agencies abound. Control plans are numerous and of many kinds, national and international in their composition—for coffee, rubber, tin, sugar, sulphur, nitrates, etc. International conferences to deal with various commodities are held by groups that are private, governmental, or mixed.

How anyone can talk today of a return to a simple type of individualism, to an adjustment through the "higgling of the market," is not easy to understand. In fact, though many profess the older faith, few believe it and still fewer practice it. A new situation has developed which calls for new kinds of adjustment, always with due regard for past experience and its lessons.

Needless to say, there is no easy answer to the questions raised. It is possible to argue that governments should abandon their attempts at agricultural assistance or controls, but such advice is futile in the face of the political pressure exercised by

agricultural groups in all countries. One may even demonstrate the general futility and wastefulness of the controls that have been attempted and of any others for such products as wheat or cotton. But the logic of such contentions is overwhelmed by the assistance through tariffs, subsidies, and otherwise so freely and widely granted to industry and to shipping.

Under the circumstances, there need be no surprise at the growing demand for national planning. Of course, there has always been national planning and its amount has steadily increased. Recently it has been widely discussed because of rapid economic development and because of its spectacular application in Russia. Yet the conditions that have accelerated it in Russia are, *mutatis mutandis* to be found all over the globe. But it is worth while to comment upon certain difficulties.

Problems and solutions may be intelligently discussed only if stated with reference to the sort of world we desire. Unfortunately, human beings agree but slightly in their ideals. Yet we may in this chapter tentatively retain the very limited assumptions presented in the preceding chapter—that there is a general desire for a better equilibrium in the balance of payments for each country and for more steadiness in the foreign exchanges. To these we should add the undoubted desire of

businessmen in any given field to secure and to maintain a regular flow of purchases and sales at prices that will show a gain.

Economic planning may be defined in either of two ways. First, it is an attempt to exercise control over the operations of an industry such as those dealing with copper, sulphur, iron and steel, coffee, wheat, or rubber. The area of attempted control may be large or small, and the agents of control may be governments or private groups, or some combination of the two.

Second, it may be an attempt to exercise control over all or a considerable fraction of the economic life within a given national area, such as Russia, Germany, the United States. In this case the agent of control is necessarily the government, although there are those who think that effective control can be exercised by some kind of cooperation between the government and private interests.

These two tentative definitions seem to include the proposals for planning that are today most frequently discussed. Among the attempts to control individual products or industries may be mentioned the effort by Brazil to regularize the production, the marketing, and the price of coffee, the Stevenson plan for rubber, the Chadbourne sugar plan, the international iron and steel cartel of continental Europe. National economic planning is most frequently illustrated by reference to Russia, though

it is found all about us in varying degrees, ranging from the Italian totalitarian and the German authoritarian state to the less pretentious and often ill-coordinated activities of other countries, *e.g.*, the United Kingdom and the United States.

A preliminary consideration of these two approaches to economic planning leads to a conclusion that to many is very surprising and that is certainly disconcerting. In each case there is no logical or even "practical" limit to the area within which control is important.

There are several ways of making this clear. One that caused considerable comment was presented by the Swedish economist, Gustav Cassel, in an address before the Dunford House Association in London on May 10, 1934. Professor Cassel held that any comprehensive effort at general control, which at present is leading so many countries to develop a high degree of protectionism, necessarily means a tendency toward dictatorship. This is due to the complexities involved in control and to the necessity of adding one measure to another until the aggregate of accumulated protectionism is enormous. Moreover, there are certain to be errors which lead the directors of a planned society to undertake corrective measures in each of which there is a high probability of further error. Protectionism or an attempt at a directed economy is thus led on step by step to a complete dictatorship.

But the lack of any suitable limit to the area of control may be shown in another way. Let us suppose that those interested in a given British industry, *e.g.*, the mining and marketing of coal, undertake to plan for that industry. The initial difficulties, even within the United Kingdom, are enormous, as is fully realized by even the most superficially informed student of economics. But, if we assume that these difficulties are overcome and a suitable organization of the British coal interests has been accomplished either with or without government cooperation, only the easiest part of the problem has been solved.

Coal is one of the most important of British export commodities. Present productive capacity can be utilized and the industry operated with a reasonable amount of stability only in case foreign markets for coal can be kept open. Needless to say, the producers in Belgium, France, Germany, and Poland will not always quietly acquiesce in the foreign sale of British coal to the amounts and at the prices that may seem suitable to the British. In times of intense business activity there may be so great a demand for coal that a given national group of producers may accomplish a great deal. But business is not always active. Crises occur and depressions may be prolonged and the control, if effective, must include all important groups of coal operators in all parts of the world. But even this is

far from adequate. In recent years petroleum and water power have become serious competitors of coal, and the aggregate production and marketing of all these sources of power must be coordinated if reasonable stability is to be secured and maintained.

By this time anyone at all conversant with world economics is overcome with the complexities of the problem. Yet it is necessary to continue with a reminder that markets for power at a given time are not unlimited and demand for power may not be highly elastic. In fact, the British and other coal producers have found that it is highly inelastic, at least in the short run. To stabilize the coal industry it is necessary to find some way of maintaining with some regularity the demand for power, which leads us at once to the necessity for attacking all the problems which arise out of, or are related to, business cycles. There is no place to stop.

This is not fanciful. It is desperately and tragically true. Among the reasons why Brazil had difficulty with the control of the coffee market may be mentioned the non-Brazilian sources of coffee supply, the competition of other beverages, the relationships between coffee valorization and certain money markets whose financial aid was imperative, and the appearance of a world-wide business collapse in 1929. The Stevenson plan for rubber control by the British met competition in the Dutch East Indies. The Chadbourne sugar plan

failed to include enough of the world's sugar producers; the Continental steel cartel was hampered by the absence of British and American steel companies.

Some lines of production, concentrated in narrow geographical limits and with little danger of competition by substitute products, may find their task less complicated. Yet the distress of the Chilean nitrate industry, because of the recent development of the manufacture of artificial nitrates, is a warning against overconfidence. At the same time, the demand of American producers of apples that they be given protection against a substitute commodity by means of a tariff on imported bananas illustrates the complex ramifications of economic life. There may even be added a reference to the alleged desire of certain American manufacturers of antique furniture to be protected against antique furniture imported from other countries.

If planning is undertaken by industries, planners can secure complete control only in case all industries in all parts of the world are included. Or, if something short of 100 per cent control is sufficient for many purposes, so many units and so many measures throughout so many countries must be embraced in the plan that most of us would shrink from the task as an impossible one. And, if even this modified statement seems to be an exaggeration, attention may be called to the fact that not many

attempts at the control of industries have achieved any high degree of success or permanency, while most of them have failed.

The other type of planning is on the geographical, or national, basis. Again the limits are hard to find. A given national economy may be placed under a high degree of control, quite effective for most practical purposes. But the twentieth century is one of world economic interdependence. Good illustrations are such areas as Great Britain and Belgium. These countries are so organized that they import a high percentage of the food they consume and most of the raw materials used in their factories. They must be able freely to market their products throughout the world unless they care to accept a much lower standard of living with perhaps a less numerous population. The British see this and in these days of economic nationalism have been divided into two groups: one urging a return to traditional free-trade practice and the other striving to organize the British Commonwealth of Nations as an economic unit.

In the Danubian area the postwar situation has been so desperate that there has been a constant fear of war that would presumably involve the other countries of Europe and probably the United States as well. National economic independence in that region is an impossibility and one futile effort after another was made to adjust the many conflict-

ing national interests. The Austro-German Customs Union, the Stresa Conference, and the more ambitious project of the United States of Europe were three of the attempts. Latest among the developments were those of 1938. Germany has absorbed Austria and Czechoslovakia, with the future of the other Danubian countries unsettled. No combination can be found that does not in some way affect the interests of other groups. But none of the countries is able to function by itself.

The Soviet Union and the United States of America are the most nearly self-sufficient of the national areas, or can be made so. But is there any serious observer who believes that either of them can really be self-contained? The former must, for many years to come and perhaps always, be compelled to import and export heavily. No matter how vigorous and comprehensive her economic planning, control is and will continue to be distinctly qualified. The United States of America, in spite of the clamor of certain superpatriots, is so involved in the economic life of the world that complete economic control is entirely impossible if her efforts are restricted to her own borders.

Either approach—by industries or by national areas—leads to the same conclusion. There is no logical stopping place in economic planning until there have been included all industries throughout the entire world. Nor does there seem to be any

practical stopping place in connection with many problems.

This, of course, brings us to an impasse. Perhaps planning on so vast a scale will never be possible, but at present and for the calculable future it is quite out of the question. In recent years attempts at international cooperation have been increased, but the gains come slowly, and the discouragements are great. In 1939 we are still suffering from such a wave of pessimism that many who formerly believed in and even fought for the ideals and activities of such preliminary efforts as are illustrated by the World Court and the League of Nations are profoundly discouraged. Economic planning seems increasingly important, if not imperative. Yet effective, thoroughgoing planning seems quite out of the question. It is necessary to do the impossible.

Refuge from the difficulty may be found by referring again to the fact that economic planning is not new. There has always been planning and always will be planning, of some sort. A reminder of the difficulties and limitations is necessary as a protection against grandiose proposals which are bound to rouse false hopes and end in dismal failure. But it is no answer to say that we must not plan. The reply must be that there is an increasing difficulty in operating our intricate economic and social machinery and that more, or at least better,

controls must be found. To a greater degree than ever before, these will be consciously continued and directed as distinct from automatic. Also, planning and control will probably be more than ever before in the hands of governments.

We accordingly return to the persisting dilemma. On the one hand, our world is increasingly interdependent—a fact that calls for a maximum of cooperation and freedom of economic intercourse. This interdependence is growing and at a constantly accelerating rate. But the world area is so vast and its operations and interrelationships so bewilderingly complex that the human mind seems as yet unable to cope with its organization. Instead, the tendency is more and more to develop along two lines. One is by industries for which world controls are attempted, though even here the approach is ordinarily through national combinations which then seek as national groups to reach agreements with other national groups. The national base is to a considerable degree retained. National rivalries do not entirely disappear, though they may be modified. The other attempt is through national economic planning under greater or less governmental initiative or direction, a method which may add to the real conflicts of interest between the different national economies.

This chapter may be closed with a quotation from Professor Richard T. Ely which is to appear

in a book not yet published. He formulates as follows what he designates as the law of change:

> Ever since man has learned to use through machinery the external forces of nature as power, changes in production and exchange take place more rapidly than do those changes in customs and habits and institutions which gradually bring about adjustments of economic relations. Consequently the more rapidly the technological improvements take place, the greater the maladjustments in economic relationships, and the greater the resulting economic misery. Those spontaneous economic forces which the older economists relied upon to establish harmony in economic relationships necessarily operate too slowly to solve our economic problems. It is a psychological impossibility to change habits and customs with sufficient rapidity, and consequently institutions have to be created to replace the maladjustments with satisfactory adjustments.

Chapter VIII

WHAT DO WE WANT?

It is futile to discuss solutions of problems unless the problems are clearly stated. We are all familiar with the assertion that most arguments arise from a failure clearly to define the terms used. There is a similar difficulty if we cannot agree at least tentatively regarding our aims. If it is at all possible to direct the economic life of the world in a "desirable" direction, our efforts will be most ineffective unless we have some common idea of the kind of economic world we desire.

This suggests the futility of many discussions regarding what is often referred to as "sound economics." A scientist in any field may be concerned with either or both of two things. First, there must be an accurate survey and explanation of the phenomena in the field—a clear statement of what is and of the forces at work. *i.e.*, the field of pure science. Second, there is the task of showing how to adapt or direct these forces toward some desired result, *i.e.*, applied science.

Both natural and social scientists are confronted with this double task. Thus, the physicist under-

takes through careful observation and experiment to learn all he can about physical phenomena. Then either he or another shows how these findings may be applied in the construction of bridges, automobiles, streamlined trains, and airplanes. The pure botanist similarly provides a foundation for those who study the improvement of plant life. The biologist and the physiologist furnish basic data for the physician. Those who make these applications in the field of natural science have a bewilderingly difficult task, but they can approach their problems with a considerable degree of confidence. They know within quite wide limits what is expected of them.

In social science there is similarly a double task. But there are certain complications that do not exist, at least to the same degree, in natural science. A social scientist must, first of all, describe and explain social life. That this is sufficiently difficult in itself is evident when we remember the numerous interrelationships and groupings of society and that these vary widely, not only in different parts of the world but even within any given country. But the analysis is even more complicated by the fact that social organizations are changing so rapidly. The forces at work in any society are numerous and many may escape detection while their relative importance is, perhaps, entirely impossible of determination. Moreover, these influences are con-

stantly changing in number and varying in their significance. Social science would be difficult if its phenomena were in some sense of the word static. But they are not. Instead, they are ever changing. The object of study refuses to remain the same and generalizations, perhaps suitable at any given time, are quickly outdated.

Still more harassing is the task of the social scientist, *e.g.*, the economist, who is asked to advise regarding procedure. An engineer is usually furnished with a clear-cut task. His goal is stated. For reasons which may or may not concern him, he is told that people desire to pass back and forth across a river. He may be asked to decide on the comparative capacities and costs of ferryboats, bridges, and tunnels. Or even these choices may be taken out of his hands and he may be asked merely to prepare the plans for a bridge or a tunnel at a given place. A physician similarly is enjoined to lessen pain and to prolong life. Such tasks are far from easy and many of them may be impossible of performance, but the social mandate is clear. Workers in natural science usually know what society desires.

Contrast the position of the economist. If he is merely a consultant retained by a great corporation, his main task is to advise what business procedures will be to the financial advantage of his employer, a definite assignment even though often a hard one. But, if the economist is expected to

advise for the social good, for the more abundant life, for the general welfare, he is in a quandary until these vague ideas are expressed in a more tangible form. The desired goal must be definitely described. There are no correct procedures other than those which will assist us in attaining some specified result.

These goals are not so easy to state as we often believe or assume. There is a widespread desire for peace, but even this desire is not unanimous if we may take at their face value the statements of certain leaders who speak of the glories of war. Then, too, there are many who will not argue against war under all conditions. Some are ready at any time for defensive war. Recently a responsible and able foreign minister of Great Britain spoke in favor of "peace at almost any price."

There are so many who denounce war, at least in general terms, that we shall assume that public policies should be formulated with a view to preventing military conflict. Yet we cannot make the same assumption regarding economic conflicts. Within any given country there are at least two facts that suggest the contrary. First, there are the deep-seated convictions, especially prevalent in the United States, that "competition is the life of trade" and that we should have "more business in government and less government in business." To a large extent, this view is not carefully reasoned but

is to be explained by the nature of the country and by its history. The early settlers were chiefly rebels against what they considered governmental oppression in the European countries from which they had come. They were strongly influenced by the "natural rights" philosophy of the seventeenth, eighteenth, and early nineteenth centuries. Their new American environment was one in which success depended largely upon the individual efforts of pioneers who were scattered over a vast expanse of territory and who could cooperate but little with each other. The setting was one well calculated to encourage belief in the virtues of individual initiative and struggle. No matter how much conditions may have changed, the mental attitudes encouraged by such an environment persist strongly.

Another fact, present not only in such countries as the United States but in most others in varying degrees, is the dispute even among trained economists over the respective advantages of a free price system and collectivism. In many of its phases there is a domestic issue, but there are international aspects as well. It is recognized that nowhere does the free price system function without friction, but it is argued by its proponents that in so far as it exists it performs an economic service and should not be discarded. Fluctuations in the prices of commodities determine what shall be produced and in what quantities. Alterations in wage rates

similarly influence the direction in which workers will offer their services, while the prospect of high or low interest rates (and dividends) affects the volume of savings and the direction of investment. The relation of this to the movements of people, of commodities, and of capital across national boundaries does not need elaboration.

Critics of the free price system abound and their opposition has been voiced with vigor. In the last few years these objections have found expression especially in works on economic planning. While the issues in this field have been chiefly national and so-called economic plans have been devised largely with a view to their value for a given country, there are many who urge that the closely knit organization of the separate national economies may intensify the economic rivalries and struggles of these economies with each other. Much, accordingly, depends upon certain basic assumptions or ideals. What kind of world do we want?

For many decades writers of the so-called classical school took the position that the advice of economists should be in favor of those policies and procedures that would enhance economic income. Policies were good or sound if they made for enlarged production. Division of labor and specialization were viewed as desirable because they made for a larger aggregate production of a higher quality. Hence, freedom from restraints not only

within a given country but between countries was favored. This attitude, it is often alleged, was especially to be expected of British writers because of the advantages of free trade for their own country. It was due also to the fact that the period in which they wrote, at least as compared with the twentieth century, was one of economic scarcity. Today, it is said, we are living in an era of abundance or surplus—a surplus economy rather than a deficit economy.

Also, it is argued that great technological changes have come which alter the nature of competition, making it more and more destructive. Modern corporations with large capital investments and high overhead costs, if they compete with each other, do so ruthlessly and with disastrous effects upon themselves and the community. In order to protect themselves from each other, producers in any given line—*e.g.*, sugar, rubber, tin, coffee—organize on a national basis. Thus, in many countries the sugar interests have entered into agreements of many kinds, prorating outputs and arranging with more or less assistance from their governments to maintain what seems to them a suitable domestic price. Often the production exceeds the capacity for absorption in the home market and sales abroad are made at the prevailing world price. In other words, a part of the output is dumped. There is thus developing in connection

with many commodities an elaborate structure along national lines, although with some understandings between the various national groups. It is definitely restrictive of competition within each country and to some extent in the international field. This situation, it is contended, arises out of the fact that we are passing from a scarcity economy to a surplus economy complicated by the nature of modern industrial organization and processes.

Many of the old arguments in favor of protectionism and nationalism are not difficult to refute, but it is a serious mistake to minimize the new situation. The undoubted difficulties which it creates give an opportunity to special interests who are able to advance plausible arguments for excessive protection and to superpatriots who can play effectively upon the emotions of the public. Nevertheless, there is need for a new orientation and for an adaptation of policies to conditions far different from those of a century ago. Whether we like it or not, we have extensively abandoned or modified *laissez faire* within all countries and we must learn also how to reach suitable adjustments in international relations.

To resolve all the differences that exist between the ideals of various groups is not the purpose of this chapter. Instead, we shall attempt only to state in broad terms the points upon which there seems to be a considerable amount of agreement.

It is not to be expected that unanimity on all points is possible at present, but it is worth while to seek a common denominator.

First may be reiterated a general desire to avoid military conflict, to secure and to maintain international peace, to avoid war. As already pointed out, there are or seem to be exceptions. It is often urged that certain nations plan or welcome war. But we err grossly in broad generalizations about peoples based upon the utterances of leaders even though these leaders may hold responsible government positions. Then, too, such leaders are but few. In most countries the emphasis of governments as well as of the general public is upon the avoidance of war.

We shall, therefore, assume that there is a clear social mandate against war. We shall broaden this by assuming also that economic conflicts of a destructive sort are not generally desired. But here we are on less certain ground. There are many who denounce imperialistic policies if they must be carried out by force but who, nevertheless, are stirred by the belief that their own ways of life are the better, that their type of culture should be extended. To this view is attached the corollary that other groups are inferior and should be kept or put in a subordinate position. Within the United States, and especially in the South, we have a well-defined attitude toward the Negro. On the Pacific

coast there are objections to Asiatics. Everywhere we hear references, if not to Huns (as in the days of the World War), at least to Chinks, Dagoes, Greasers, and to other groups who are thought to have characteristics inferior to those of the mass of Americans.

In our international relations this attitude appears in many of our policies. Some excuse it on the ground that we do not claim innate superiority but that we merely seek to maintain and to raise American standards and that our efforts will be frustrated unless we isolate ourselves from foreign groups, even if in so doing we make their conditions more difficult. Accordingly, we restrict immigration and in our laws discriminate against the peoples of Southeastern Europe and particularly against Asiatics. We impose heavy import duties if we believe it to our advantage, regardless of the strain this may place upon industries and workers in other countries. If it can be demonstrated that the incidence of a tax is upon foreigners rather than upon Americans, we are prone to call it a good tax. There is a general tendency to approve economic procedures that are, in fact, economic warfare.

Nevertheless, we shall argue for policies that minimize this type of conflict. There is a large body of public opinion in all countries of the world favoring a reduction of economic warfare between peoples. This view is in part merely an enlightened

selfishness. Many realize that the repercussions of an excessive economic nationalism are severe, that policies designed to aid the countries adopting them will fail of their purpose if they result in too great an economic weakening of others or if they provoke retaliation. This attitude has been definitely evidenced in the United States by the support given to the government in its negotiation of reciprocal trade agreements in the last few years.

Another assumption seems to be safe. World productivity should be increased. The world, or some parts of it, may have passed from a scarcity economy to one of surplus, but this change, to whatever extent it may have occurred, should not be misinterpreted. "Surplus" means many things to many minds. There is one sense only in which it may accurately be employed. In some countries, among which the United States is the clearest illustration, productive technique has been so fully developed that if we use it properly we may maintain our existing population, including any probable increase for years to come, with a standard of living well above a subsistence level. We may accordingly direct our efforts either toward keeping production at a maximum, the so-called production optimum, or toward a welfare optimum, one which will determine the amount produced by reference to some assumed suitable standard of life which includes adequate leisure, etc.

But there has been much loose talk about the surplus economy. First, there are, of course, large numbers of people, even within the United States, whose standards are unsatisfactory to all of us. Second, what is true of the United States is true to a less degree or not at all in other countries. Third, there is no reason to suppose that the people of any country, even our own, will accept their present incomes as satisfactory. Rare is the person who does not believe he could consume with satisfaction far more than he now has.

One of the regrettable tendencies in recent years has been the talk of overproduction. In no country has there been more produced than could have been consumed with satisfaction and advantageously if it could have been acquired by those who desired it but who could not buy because of a lack of purchasing power. There has not even been a world production of any single commodity in quantities so large that it could not have been advantageously used. There have been, of course, many producers who have found themselves unable to sell their output at a price sufficiently high to cover their costs. But this should not be called overproduction. Sir Arthur Salter has observed that we may speak of overproduction only "when every Hottentot is a millionaire."

We shall accordingly urge policies that will make for greater productivity. A fourth assumption is

that the world longs for greater economic stability. One evidence is the widespread discussion of the extent of unemployment and of the means by which it may be lessened or its tragedies alleviated. A vast volume of literature upon business cycles has appeared. Devices such as government expenditures for public works are urged as a means of steadying employment. Managed currencies have been the vogue, in the belief that the old gold standard permitted price fluctuations that are pernicious in their effects and that can be avoided by suitable monetary controls. On the merits of these analyses and proposals we need not pass judgment, but the activity of the discussion warrants our assumption that a greater degree of economic stability is generally desired.

Fifth, and related to the others, is the demand for security. To some, this is a demand for security against external aggression. It is made the excuse for large armaments and the expenditures necessary for their creation and maintenance, even though many concede that these armaments may increase the dangers they are designed to meet.

To others, security means economic security. Steadiness of employment at an adequate wage, assistance of some sort through periods of involuntary unemployment, adequate medical care at moderate cost, assurance that something will be available for support in old age—with the growing

complexity of all forms of social organization, and with the increasing inability of the individual worker or employer to provide for himself, more and more thought is being given to security in all of its forms.

Sixth, there is a strong feeling against the existing inequalities in the distribution of income. There is no strong demand for equality but a protest against extreme inequalities. In all countries, heavy income taxes and inheritance taxes are defended, not merely as a means of raising revenue, but also as devices for improving income and wealth distribution. This is less noticeable in international relations, but here, too, the same thought appears. "Dollar diplomacy" is no longer defended in the United States. For the present, at least, we speak of the "Good Neighbor" policy.

Later chapters will not discuss the pros and cons of these issues. They are written, however, on the assumption that for the most part humanity desires peace, an enlarged productivity, stability, security, and a less uneven distribution of income. The analysis is not easy and it is presented without dogmatism. But an attempt will be made to indicate the lines along which efforts should be directed if we really desire to secure these final results.

CHAPTER IX

ECONOMIC NATIONALISM

If we seek to attain the results outlined in the preceding chapter, there is not one possible approach but several. During the postwar era, attention has been directed especially to what is called internationalism. Its advocates have been able and enthusiastic. But at present (in 1939) they are profoundly discouraged. Nationalism has grown, international conferences seem to have accomplished little, and the League of Nations is under a cloud. Wars or near wars have been waged in Spain and in the Far East and are repeatedly threatened in Europe. There is a reaction which among many is but little short of despair.

Perhaps this reaction is salutary. Social situations and procedures are not to be resolved by any one formula. It is easy to find a solace for our difficulties in this way, yet there is nothing in experience to warrant the view that any single form of organization or any one line of conduct will provide an adequate answer. Life is discouragingly complex.

In this and in several succeeding chapters we shall analyze six lines of effort, noting the possi-

bilities and limitations of each. The first is "economic nationalism." The name is a poor one. Perhaps it should be designated as "economic imperialism," but in any case there should be a clear distinction between it and intranationalism, which will be discussed in Chapter XII. Yet here, as elsewhere, no sharp dividing line can be drawn. The difference is one of emphasis or of degree.

By economic nationalism or imperialism we mean those forms of organization and of procedure which were dominant in the nineteenth and early twentieth centuries. In the economic field the leading characteristic was the so-called capitalistic type of organization. Private ownership of property, individual initiative, *laissez faire*, operation for profit, were its outstanding features. Business was carried on largely by individuals and to a rapidly growing extent by corporations. In order to "make money" they were driven to buy goods or carry on production at as low a cost as possible and to sell at as high a price as they could get.

In this picture governments nominally had but a small part. The dominant political theories limited governments to a minimum of activity. Actually this was less and less true as time passed. In domestic affairs the functions of government were increased, both extensively and intensively. In foreign economic relations government played a larger and larger part. The real situation did not

correspond closely to the general theories of those who professed belief in the virtues of individual initiative and in "less government in business."

This economic nationalism of the nineteenth century has not lacked defenders. World population, it is said, increased from between eight and nine hundred millions in 1800 to sixteen or eighteen hundred millions by 1900 and to over two thousand millions today. While standards of living at any time cannot be calculated with precision, there is no disagreement with the view that these standards greatly advanced. It can be claimed for the dominant economy of the period that it at least permitted and probably caused a development under which twice or more than twice as many people as before were able to enjoy much larger incomes. This is no mean achievement.

Two aspects of economic nationalism in the nineteenth century should be distinguished. One is that business was "capitalistic." Dominant features were private ownership and operation of the means of production, a moderate though growing amount of government control, a quest for profit. Critics of capitalism denounced its weaknesses and abuses. It changed in form and in procedures but its main features persisted. Businessmen were relatively free to buy and to sell as they could, in a market that was never entirely free but was relatively so.

The second aspect of economic nationalism was the growth of its national features. After a reaction from the mercantilism of the preceding centuries and a relatively brief period of *laissez faire*, governmental controls multiplied. Restrictions grew. Certain business practices came to be viewed as unethical. Private restraints on competition were condemned. Government ownership and operation increased.

In the field of international affairs these two aspects brought developments that illustrate both the possibilities and the limitations of economic nationalism. In its search for raw materials private business exploited the distant parts of the earth. Seeking to sell its products at a profit, world-wide markets were similarly exploited.

Governments participated in many ways. Numerous restraints were imposed upon domestic business that were not applied to foreign trade. Thus, the United States, in spite of its more or less successful attempts to suppress "combinations and conspiracies in restraint of trade" within the country, specifically encouraged such combinations for the furtherance of foreign trade by enacting the Webb-Pomerene Act and the Edge Act.

Governments also interested themselves in the foreign investments of their nationals and in two ways. There are many illustrations of the tendency of private investors to appeal to their home govern-

ments for assistance in collecting amounts due or claimed by them. This assistance, when granted, ranged from mild diplomatic representations to heavy military pressure. On the other hand, private citizens were often encouraged to make investments abroad in areas and under circumstances that furthered the political aims of their home governments. Not so many years ago, the methods employed by the government of the United States in Latin-American countries were called "dollar diplomacy" and were sharply criticized.

During the twentieth century economic nationalism increased and to many observers was a leading cause of the World War. Since 1919, and particularly since 1929, changes have come which are usually characterized as an intensification of nationalism and as demonstrating its dangers in the modern world. It seems better, however, to draw a distinction between nationalism and intranationalism and to analyze certain current tendencies under the latter heading. This will be done in a later chapter.

Reference has already been made to nineteenth century economic progress. What may be designated as the basic reasons for such remarkable gains? Are conditions at present such as to make different policies and procedures advisable? Is it possible to attain the desirable ends listed in the preceding chapter without a change of approach?

If we are to have peace, enlarged productivity, stability, security, and a less uneven distribution of wealth and income, must we abandon the policies of the nineteenth and early twentieth centuries?

First are the fundamentals of what we call capitalism. Are they still helpful or have they served their purpose in the international field and should they now be displaced? We need not argue the issues so vigorously debated by the supporters of individualism and of collectivism in so far as these questions are of domestic concern. It is possible that either the one or the other or some combination is the better within a given country, while a different conclusion would be reached for the broader field which we are now considering.

Under capitalism private individuals and corporations must concern themselves solely or chiefly with "making money." Net receipts from business operations must be greater than costs. This involves keeping costs down and enlarging income to the highest possible level. To keep costs low a businessman must, among other things, continually watch his supplies of raw materials. To maintain his sales he must exercise constant vigilance in acquiring and retaining markets.

Many raw materials are easily secured at home in abundant quantities, especially in such vast and diversified areas as Russia and the United States. But even the United States imports large amounts

of many products not found or not easily raised within its own borders. Rubber, tin, coffee, cane sugar, manganese, and tropical fruits are clear illustrations. Steady business operations require regular importation of these commodities. Sources of supply must be safeguarded or developed. Efforts are accordingly made to control these sources. Contracts are entered into with foreign producers or great corporations secure concessions in external areas where they may develop their own supplies as, for example, rubber from Brazil or from Liberia. What is so important for business in the United States is true to a far greater degree for such countries as Great Britain, Belgium, and Germany, whose areas are smaller and whose resources are more limited and less diversified. Apparently business, as we know it, is forced into such practices.

There is a vast literature dealing with the resulting abuses. It is charged that labor has been mercilessly exploited in Latin America, in Africa, and elsewhere. It is alleged that loans were made by powerful banking and industrial groups, with the silent approval or even the active support of their governments, on terms that were harsh and that placed the debtors under heavy pressure.

But in all the discussions there is little to indicate that there has been any significant discrimination between purchasers of these raw materials and

foodstuffs. For the most part they were on an even footing. Prices may have been high; in fact, they may have been raised by monopolistic combinations of one kind or another. Yet, no matter what country controlled these areas of production, the output was, in general, available to all purchasers at the same price. This has led recently to vigorous protests against the view that there is any national gain in acquiring colonies as a source of foodstuffs and raw materials. The expense of development falls upon the exploiting country or upon its nationals, but the advantages of a larger supply are available to all. Usually the costs of colonies are heavy for a home government and any gains that arise are for private corporations who exploit the resources of the colonial areas. But their gains, no matter how large or by what methods they are secured, have not ordinarily come from discrimination in favor of the buyers of one nation as against those of another.

As always, some exceptions should be noted. Several are cited by the League of Nations Committee for the Study of the Problem of Raw Materials, published in August, 1937. But, after listing six classes of "prohibitions and restrictions on the export of raw materials and foodstuffs," the committee found that they have been employed primarily as "defensive measures" rather than "to apply pressure to other countries." Substantially

similar conclusions were reached by the committee regarding other types of restriction. There would be no charges of discrimination in favor of any one group of nationals "if the distribution of raw materials was not uneven," but the committee said: "No doubt certain difficulties regarding supply exist; but none of them is insuperable," and added: "The difficulties in regard to payments vastly transcend in importance those in regard to supply." Others have voiced similar conclusions and in even more emphatic terms.[1] The general conclusions of various writers are much the same. Raw materials are unevenly distributed. In times of peace restrictions are rarely imposed, and for the most part these are in favor of the producing country and as defensive measures, with no discrimination between foreign purchasers, even by colonies in favor of the mother country.[2] The main difficulty is the lack of purchasing power at the disposal of buyers.

This is not surprising in view of the nature of the prevailing economic organization. Businessmen are engaged in "making money." Money is made through sales. For the most part, it is to the advan-

[1] *E.g.*, Sir Norman Angell, in a pamphlet "Raw Materials, Population Pressure and War" (New York, 1936); Herman Kranold, "The International Distribution of Raw Materials" (London, 1938); and John C. de Wilde, "Raw Materials in World Politics" (Foreign Policy Reports, Sept. 15, 1936).

[2] Attention should be drawn, however, to the contentions of the "have-not" countries as, for example, in "Colonies and Raw Materials" (Völkerbund, Geneva, May/July, 1937).

tage of the seller to widen the area of possible sales. Competition among the largest possible number of buyers is to his advantage. Even if he has a monopoly of his product and, in accordance with the principle of monopoly price, restricts supply in order to secure the highest possible net returns, he usually has little or no inducement to apportion his output among buyers along national lines. His gains are enhanced by keeping as many buyers as possible bidding for his product.

One comment that should be added is that, of course, any seller is glad to see other sellers excluded from his market. If it were possible for producers of raw materials to secure monopoly privileges in any area, they would do so. But such possibilities have until recently been rare, owing to the large area from which raw materials and foodstuffs have been secured. In the last few years there has been a rapidly increasing tendency toward restrictions, yet these restrictions are largely in the form of import duties, import quotas, etc. Thus, high tariffs are imposed against wheat imports into France, which was until within the last few years a wheat-importing country. As a result, the price of wheat within France has been much higher than the world price. This has not been a discrimination between the nationals of other countries who buy from France, but in favor of her own agriculturists. The losers are the French consumers of wheat and the outside

sellers of wheat who have lost much of their former French market.

Turning to the problem of markets, we find businessmen under persistent pressure to seek markets at home and abroad. Particular producers do all in their power to enlarge their markets and to keep out competitors. When they can acquire control over foreign markets they may be expected to do so, but the possibilities are far greater at home. It has been fairly easy to secure protective assistance against the foreigner. Under the leadership of Great Britain, there were a few years after the middle of the nineteenth century when the drift toward freedom of international trade seemed clear. The movement was only a brief one and since about 1870 the trend has been more and more toward restriction.

This trend is the one to be expected with an economic organization of the type that has prevailed. Money has ordinarily been made by selling as much as possible at as high a price as possible. There is an advantage to any producer in monopolizing the market. If he cannot do this strictly for himself, he can attempt it within his own country for himself and for his fellow nationals, if any, who are engaged in his own line of production. By means of various types of restrictions on imports he secures a discrimination against foreign competitors.

For decades economic nationalism or imperialism was workable. The world demand for foodstuffs

grew for two reasons. One was the world-wide increase of population. There were more and more people to be fed and this called for more and more food. The other reason was the rising standard of living, which meant that the consumption of food per capita continued to increase.

While standards of living, including the amount of food consumed, can still rise by considerable amounts, there are clear signs of a retardation in the growth of demand. One is the slowing down of population growth which has been discussed above in Chapter III. As numbers tend to become stationary or perhaps decline, the demand for food may not expand but may tend to contract. As more and more people raise their standards above the subsistence level, their enlarged incomes will be used only in part to buy more food but will to a considerable degree be spent in other directions. The demand for food is highly inelastic. If we add to this the many other influences that are encouraging economic self-sufficiency, the effect upon the expansion of food production is clear. Demand cannot increase indefinitely. Many countries are endeavoring to make themselves self-sufficient in food supplies and raise barriers against food imports. This stimulates home production of food, but imposes a sharp check on those regions that formerly specialized in supplying food for the rest of the world. The economic organization of the nineteenth century was dependent upon indefinite

expansion. To this needed expansion there is no logical limit. In fact, under private ownership, competition, and operation for profit, everything comes to depend on an endless growth. But checks on that growth are clearly evident so far as food supplies are concerned.

With raw materials the situation is different. Here, too, indefinite expansion in demand is important, but there is, in general, no check on expansion. At any given time there is, of course, a limit to the amount of rubber that the world market will absorb. The same is true of copper, tin, lead, zinc, cotton, wool, etc., as is evidenced by the frequent congestions in the markets for these products and by the persistent attempts of producers to do what they often call "adjusting the supply to the demand." But new uses for raw materials are constantly appearing and over an extended period of time demand for them will presumably expand.

Another way of stating the situation is to point out that, with growing demand, economic exploitation may be developed toward the *extensive* margin. This could occur and has occurred as wider areas have been brought into use. As demand for food has grown, it has become profitable to utilize agricultural lands formerly worthless. As new uses have been discovered for raw materials and as improved processes for cultivation, extraction, and refining have appeared, more areas have been brought into

use. Under the powerful pressure of economic forces as sketched above, the surface of the earth has been explored and brought under control.

However, development may proceed not merely toward the extensive margin, but toward the *intensive*. If the demand for food, cotton, rubber, coffee, etc., increases, new land may be brought into cultivation but also land already in use may be worked more intensively. At any given time there is a rough choice possible between two alternatives—spreading effort over a larger area or concentrating the additional effort on more cultivation of soil already in use. Similarly, an enlarged demand for minerals may result in the discovery and working of entirely new mines or the more thorough working of mines already developed.

There is accordingly no reason to contend that economic expansion is no longer possible merely because political controls have been established over all of our globe. Within most, if not all, countries there are still areas that are not in use. But when and if these have been utilized there is still possible intensive effort on these same areas. An economic organization which calls for larger and larger supplies of materials may still expand. Even though there are no more regions inhabited by primitive peoples who may be subjected to capitalistic controls and exploitation, the struggle may go on. There will be a change in the form of the

struggle, but it may be as intense as before. A group of producers wishing ever-larger supplies of any product cannot seek them by fomenting conquests of native groups in Africa or elsewhere. Even before the World War this was evident when the British and French encountered each other at Fashoda, the Russians and the British in Persia, the Russians and the Japanese in the Far East. Today there are signs that this pressure, which can no longer be exerted in regions incapable of any opposition, is applied against second- or third-rate nations, as in Spain, in Austria, in China, and elsewhere.

As indicated above, however, there are few discriminations exercised between different nationals who desire to buy raw materials. Producers of raw materials are eager to sell. Much more important is the struggle for markets for the raw materials and for the manufactured or semimanufactured products.

Illustrations are numerous. The Ottawa Agreements of a few years ago were an effort to secure within the British Commonwealth special arrangements under which each party concerned could secure preferential terms in the sale of its products, especially with Great Britain. France and Germany have imposed higher tariffs upon imported food in order to retain the home market for their own farmers. Other countries, including, of course, the

United States, have done the same. Quotas and other restrictions abound.

The nature of our economic organization compels such efforts. Modern production is an indirect or roundabout process—in fact, very indirect and very roundabout. Heavy investments are required in mining operations and in raising coffee, cotton, or rubber. Several years at the least are needed to develop an efficient organization in any of these fields to the point of productive operation. Having been developed, the capital cannot readily be withdrawn or production curtailed if there is a slump in demand. Or, if demand grows, there cannot be a sudden increase in output to meet it. The resulting tendency is that capacity is expanded when demand increases, but there may be little permanent abandonment of properties when demand declines. Current output falls slowly when prices fall and recovers sharply as soon as prices rebound. Prices tend to fluctuate between wide extremes.

This pressure to find markets is, perhaps, even more intense for manufactured and semimanufactured products. Large plants with heavy investments of capital must dispose of their products. Overhead costs are heavy. Curtailment of operations reduces variable costs but the persisting overhead may be the heavier. The domestic market may be held by numerous protective devices but there is every reason to attempt operation at full

capacity. Moreover, with every advance in demand, productive capacity tends to expand and at any given time there may be a considerable amount of unused capacity. No matter if the home market is large, we may expect a continuing drive for sales abroad.

But businessmen in every other industrialized country face the same problems. Each national group of producers, *e.g.*, of steel or automobiles, will wish to sell its products abroad and, at the same time, will press for higher and higher protective devices to keep out foreign competitive products. Throughout the world this situation prevails. Even where "capitalism" is disavowed, as in Russia or in Germany or, perhaps, in Italy, production is carried on with heavy investments in large plants. In other words, it is roundabout production with all its pressures. As long as the world is organized as at present these pressures will persist. To ignore this is to misconceive the real situation.

It is accordingly necessary to accept economic nationalism as a continuing influence, merely seeking for ways to lessen its dangers. In its present form and with its present practices, economic nationalism is a threat to peace. It tends to retard growth in world productivity, lessen stability, and reduce security. Some urge that it increases the disparity of incomes, though the charge is disputed by others.

CHAPTER X

AUTARCHY

As a relief from the strains and conflicts that seem to be inherent in economic nationalism or imperialism as defined and analyzed in the preceding chapter, there has been a growing insistence on autarchy. This is at times called economic nationalism, but the choice of names is not important if the ideas involved are kept clear. We shall refer to the forms and procedures discussed in this chapter as autarchy. By it is meant the proposal that each national area make itself as independent as possible of all other national areas. Trade, commerce, investments, and other economic activities across national borders are to be minimized. As fully as conditions permit, food and raw materials are to be produced at home, and domestic output is to be marketed within the national boundaries. Investments abroad are to be sharply limited, and in all other possible ways national self-containment is to be increased.

Autarchy cannot be abruptly dismissed from our calculations. Although some of its advocates have pushed the idea to absurd and impossible extremes,

there is a large and responsible body of opinion that urges the value of less world interdependence. First, it is urgued that economic imperialism in the twentieth century is a cause of increasing strain and ill will. Geographic expansion has reached its limits. Areas not under the control of the older industrialized countries are no longer to be found. Clashes of rival economic interests organized on a national basis are bound to be more frequent and more serious. With the acquisition of Ethiopia by Italy the last of the independent primitive peoples has been brought into subjection. Now the Great Powers, or some of them, are extending their controls to second- or third-class countries. Attention is drawn to the activities of Japan on the Asiatic mainland, the absorption of Austria and Czechoslovakia by Germany, the adventures of Germany and Italy in Spain, and the attempted economic exploitation of Southeastern Europe by Germany. Moreover, many of the countries exploited in the past, such as China, India, and others, are becoming resentful. It is to be expected that they will attempt to throw off the controls that were imposed upon them during the nineteenth century and earlier. The strains are increasing and positions once considered safe and permanent are becoming untenable.

Next, it is pointed out that a country may become dangerously dependent upon others. There

are disadvantages as well as advantages in interdependence. If a country relies upon foreign supplies of food, a failure of this foreign supply may mean serious hardships. This is clearly the case during war, but often it is true also during peace. A drought, a business cycle, or some other external catastrophe entirely beyond the control of the country in question imperils its sustenance. With inadequate home production, suffering results. The same argument applies to dependence upon raw materials.

Then, too, dependence upon foreign markets means difficulties if there are business fluctuations abroad. The failure of foreign markets means unemployment at home, while shipping lies idle, factories shut down, and interest on foreign investments is reduced or not paid at all. There may be so much dependence upon conditions abroad that harmful reactions occur in booms as well as in depressions. In 1928 and early 1929, the active stock market in New York attracted funds from all parts of the world. Americans and others who had funds abroad bought drafts on New York in order to speculate in the rising market. The price of dollars rose in terms of other currencies or, conversely, they fell in terms of dollars. A heavy flow of gold to New York resulted, and in self-defense the central banks in Paris, Berlin, Vienna, Tokyo, Bombay, and elsewhere raised their rediscount rates, which, of

course, raised the market rates for borrowed money in all these centers. This in turn increased costs for businessmen and made for economic strain. In September, 1931, the dangerous dependence of Great Britain upon conditions in Austria at the time of the failure of the Kreditanstalt was a leading cause of the suspension of gold payments by the Bank of England.

It is pointed out that there may be too much dependence. As a way out, it is argued that this dependence should be reduced, that each country should rely more upon its own food supplies, its own raw materials, and its own markets. In so far as this means a sacrifice of some of the advantages of an international division of labor, it may result in somewhat lowered standards of living, but this loss, it is contended, will be more than offset by a greater stability.

An even more significant argument is that international specialization and dependence is less important than in the past. During the nineteenth century it seemed clearly advantageous for all countries to allow certain industrialized countries to furnish a large part of the manufactured goods desired by the rest of the world. Cotton, wool, and other raw materials could be raised in the less developed regions, such as Australia, Egypt, India, and the southern part of the United States, shipped to Great Britain for manufacture, and resold in a

world-wide market. In return for this manufacturing service the British received a large part of their food from foreign areas and, in addition, provided capital for developments elsewhere. To a less degree the same advantages could be found in the specialization of other countries.

But a change has come. Population growth is slowing down in the older industrialized countries, which may retard the growth of their demand for food. An even more important development is the spread of industrialization. For example, the manufacture of cotton goods has increased in Japan, in China, in Germany, in Italy, in the Argentine, in the south of the United States, and elsewhere. Dependence upon the natural nitrates of Chile has been sharply reduced by the growth in the manufacture of artificial nitrates. The development of agrobiology has opened up amazing possibilities of food production everywhere. As one writer[1] has urged, "Nations can live at home," at least so far as food supplies are concerned, if they care to do so. Coal has lessened in importance with the increased use of oil and water power. Substitutes are today more numerous. Synthetic materials and new inventions displace in industry many of the older raw materials upon which industrialized life was so dependent.

[1] See O. W. Willcox, "Nations Can Live at Home," New York, 1935.

In the past, international investment had an importance which it has lost, at least in part.[1] Formerly international loans were made largely on a laissez-faire basis. Their dominant effect was to supply the newer countries with capital which they could have accumulated only slowly for themselves. Their productivity was rapidly increased. They received tools, machinery, and many kinds of consumers' goods, such as cotton goods and hardware. Trade was expanded and mutual dependence became greater. International investment grew irregularly. There were crises and defaults. Some loans were made with the encouragement of home governments and others without, but the general features were as described.

In recent years changes have come. There have been heavy losses suffered by investors abroad in these postwar years. If this were all, we might anticipate a period of hesitancy followed by a resumption of international lending of the old type. But former practices were related closely to the international specialization and division of labor discussed above. If this specialization is diminishing and if foreign trade is declining in importance, international investment is sure to be affected.

[1] "The Problem of International Investment," prepared under the auspices of the Royal Institute of International Affairs, London and New York, 1937.

There is clearly an argument for a larger degree of autarchy. The fact that its possibilities have been greatly exaggerated and that many of its advocates have been motivated by a desire for personal gain is likely to give us the impression that there is no economic basis for the movement. It is true that vested interests argue that we should "buy American" or British or Japanese. It is true that in some countries the merits of autarchy have been pressed by those with militaristic ambitions. Many substitutes for imported goods are clearly inferior. Defaults have occurred on some foreign loans that could have been serviced by the debtors. The movement has in many cases been extreme or even grotesque and has brought heavy economic pressures on the countries that have most fully adopted it. Yet it would be a mistake not to take account of the developments sketched in the last few paragraphs.

But this sketch has presented only a part of the facts. There is much to be added. It is not easy or wise to change abruptly from one form of world organization to another. We may find that the place of autarchy or economic self-sufficiency is not so important as its enthusiastic supporters claim.

One consideration is that it is not easy to break sharply with the past. Notice the position of the United Kingdom, whose population is about 47,-

000,000. In England and Wales alone there are nearly 41,000,000 persons, or over 700 per square mile. This large number of people have a high per capita income, although its distribution is such that there are extremes of wealth and poverty. So many have been able to live on these islands because of their reliance on international specialization and exchange. Only about 8 per cent of the population of the United Kingdom are engaged in agriculture, fishing, and other food-producing activities. It is not easy to be precise in calculating food dependence, but it has been estimated that 50 or 60 per cent of the food annually consumed by the people of the United Kingdom is imported.

The people on these small islands have become very dependent and the existence there of so many people at their prevailing standard of living is due to their specialization in manufacturing. This specialization rests upon the heavy importation of raw materials and the continued sales of manufactured goods all over the globe, upon the earnings of merchant vessels which carry not only British but foreign goods, and upon numerous other economic activities whose continuance is dependent upon the maintenance of a large amount of international division of labor and exchange. Autarchy for Great Britain would mean a reduction of the national income or a greatly lowered standard of living for 47,000,000 people. If carried very far it might mean

acute suffering or, conceivably, actual starvation for many.

Perhaps the British erred in allowing themselves to become so completely dependent. Perhaps they should not have specialized so much and should have multiplied in numbers less rapidly. But there they are in their position of extreme dependence. They may be compelled to surrender much of their industrial leadership—in fact, some of it has already gone, part of it because of their own adoption of protective measures in recent years. Changes have come, and others are under way. Adjustments will not be easy. Hastening the trend toward economic self-sufficiency will add tremendously to the strain, and it is impossible to see gains that are worth the cost.

It may be that this illustration is an extreme one. But what has been said of the United Kingdom is true to some extent for all countries. It is hardly less true for Belgium, for Germany, for Italy, for Japan, and for many others.

The price paid for autarchy will vary from one country to another. Some countries are but slightly dependent, while others are more so. But readjustments that lessen specialization and exchange cannot but mean lower standards than might exist if division of labor were continued and, in most cases, lower standards than the present ones. To some extent this can be offset by technical improvements

in agriculture, in the extractive industries, and in manufacturing. Substitute products may be found or invented and some of them may be better than the ones to which the world is adapted. But, unfortunately, many of them are inferior in quality and many are more expensive to produce. The changes to which world economy must in any case adjust itself are so great that adaptations will be difficult. Deliberately to increase and to hasten them is merely to add greatly to our difficulties. The past has given us an economic machinery which must be altered in many ways, but the pace should not be unnecessarily quickened nor the direction of change carelessly determined.

Much has been said of the development of substitutes for many of the products upon which we now depend. Rayon has partially displaced cotton, artificial nitrates have largely taken the place of natural nitrates, synthetic rubber may soon be manufactured of a quality as good as that of natural rubber and at as low a cost. The progress of invention has been amazing, and even more wonders may be expected. Yet it is easy to be swept off our feet. Not all that is prophesied can be realized. And more important still, many of the pending discoveries may increase world interdependence, not lessen it. This has certainly been true in the past with the increasing use of iron and steel, with the development in the uses of rubber, tin, aluminum,

and other products. It may also be true in the future.

And, in the present, complaints abound over the alleged poor quality of many of the substitutes. Nor is there any indication that those countries most devoted to autarchy and loudest in its praise are finding their lot is being lightened. It is from Germany, Italy, and Japan that the most vociferous outcries are coming. Much as they may have reduced their dependence, they still insist that they must have a greater control over raw materials and markets. No matter how much real basis there may be for their complaints, the point is that they do not concede the possibility or desirability of self-containment within the present boundaries. They seek to expand their territorial controls. Evidently there is a limit to the practical application of autarchy.

A word should be added about the invisible items. One is the expenditures of tourists. Americans who travel abroad expend large amounts, which were estimated by our Department of Commerce at $821,000,000 for 1929 and at $610,000,000 in 1927. These expenditures are debit items in our international account. Instead of importing foreign food and eating it within the United States, we eat it abroad. Instead of having dresses, hats, and other items shipped into the United States for purchase at our stores, many of us make the purchases abroad and carry the goods in. Tourist expenditures

by Americans are imports for us and exports for the foreign countries where we buy. Similar comments may be made for the other "invisibles," such as immigrant remittances, interest due on foreign investments, etc. All the transactions involve debits and credits and call for offsets either by other invisibles or through the movements of commodities. Economic self-sufficiency in commodities introduces difficulties in paying for the invisibles. The cost of foreign travel will be increased and its volume reduced.

This reference to interest on foreign investments suggests at once the increase of difficulties in payment of amounts due to and from abroad if autarchy is increased. As matters now stand, these investments are large. To some extent they may offset each other, since Americans have invested in Great Britain and British have invested in the United States. But the balance is never exact. At the present time on private account Great Britain is a creditor of the United States for more than a billion dollars net, to which statement there should at once be added the sum due from the British government to the United States government, a principal amount of about $4,400,000,000.[1]

In general, the balances are large in favor of one country and against others. Any curtailment of

[1] Estimate of Cleona Lewis in "America's Stake in International Investments," p. 469, Washington, 1938.

international trade adds to the difficulties of payment, with all the consequences that follow from defaults and repudiations.

A final comment should be made. Advocates of autarchy claim as one of the advantages of self-sufficiency a freedom from dependence upon disasters in other parts of the world, and there is something to be said for this view. But a self-contained country may have its internal difficulties. A crop failure may mean serious troubles at home if the shortage of food cannot be met by food imports. In a world adjusted to self-sufficiency these imports would not be easy to secure. Financial crises may occur even within a given country and are now often greatly relieved by assistance from abroad, an assistance that would not be so fully and promptly available in a world of highly developed autarchy.

Self-sufficiency has been increasing. Its growth has brought serious strains and has added to human distress rather than relieved it. Changes have come which may perhaps permanently reduce the amount of international trade, although this is far from clear. Doubtless the composition of that trade will be modified. As yet the development of autarchy has brought no relief.

We may be compelled to accept its increase, at least for a time, but the price is a heavy one.

Chapter XI

INTERNATIONALISM: ITS USES AND ITS LIMITATIONS

As a relief from the difficulties of the older nationalism or imperialism, autarchy seems to be in the ascendant. Many openly advocate it, although a careful examination of their arguments shows that few, if any, really favor complete self-sufficiency. Efforts to modify trade barriers encounter strong opposition. More and more restrictions appear on the movements of people, of commodities, and of capital across national boundaries.

There are, of course, numerous exceptions. Even some individuals who are active in restrictive efforts voice their personal objections. Reports are persistent that pressures on living standards are heavy in Germany and in Italy. It is alleged that the Japanese are encountering more and more difficulties in securing from outside sources the supplies they need for the prosecution of the conflict in China and the one that threatens with Russia. Here and there, trade restraints are modified even though usually the modifications are minor as compared with the restraints. There is a

growing realization that the disadvantages of autarchy are widespread and that the people of all countries are suffering from it.

It is not difficult to present a superficially convincing argument for freer trade. Modern economic life rests upon division of labor, upon specializations and exchange. Through this specialization it is possible to produce more and better goods and services than we could have if each of us attempted to produce for himself everything he consumes. Not only individual specialization but regional is the rule within national frontiers and encounters only a moderate amount of opposition. Within the United States there are advocates of a large degree of state or local economic independence, but they are in the minority.

When we reach the field of international economics the emphasis on self-sufficiency becomes stronger. It is related to the fear of war, to national sentiments based on a long period of national development and on the real divergence of economic interests that are bound to appear in a world organized for political purposes into areas each of whose governments and people must establish their own economic institutions and who insist upon sovereignty, independence, and equality.

This readily leads to the contention that we can relieve many or most of the tensions through what is usually called internationalism. Among its

advocates are many who have urged it with an almost religious fervor. They have idealized its possibilities and have often ignored its limitations. Some have believed or seemed to believe that all we need is a firm faith in international cooperation and that there are few or perhaps no obstacles to its realization other than a state of mind or perhaps the desires of a few bankers or industrialists for individual gain.

An international approach is one in which the different nations retain their separate identities and negotiate with each other for the adjustment of international disputes. There is due recognition of the existence of each national entity but an assumption that there are many interests that are common. In numerous ways discussions are carried on and adjustments sought. Negotiations may be bilateral, that is, between two countries concerned over one or more apparent conflicts of interest, or more than the two may be involved. The discussions may be multilateral, even including all or most of the countries of the world. Diplomatic correspondence or personal exchanges may be employed. Instead, there may be international conferences of larger or smaller groups. Organization and procedure may be set up only for the purpose at hand—*ad hoc*—or continuing bodies may be brought into existence, as was the League of Nations. There is no single international approach, but many.

That internationalism should encounter opposition is not surprising. Even if the issues are presented upon the broadest possible basis—the interests of each national economy considered as a whole—there are real conflicts that are hard to reconcile. These have been recited at some length in Chapter II and need little further emphasis. In 1929 the United States exported to Canada 16,091,000 tons of coal (both anthracite and bituminous), valued at $86,508,000, and in 1936 the smaller amount of 10,331,000 tons, worth $49,187,000. To this amount of coal the industries of Canada have become adjusted, and a reduction in its amount owing to war needs of the United States, or even to a peacetime revival of business in the United States, and a consequent advance in coal prices, may be a serious matter for Canada. On the other hand, the United States in 1929 imported from Chile 922,000 tons of sodium nitrate, only 50,000 tons in 1932, and 472,000 tons in 1936, the values for the three years in order being $34,466,000, $1,444,000, and $9,140,000. It is presumably not worth our while to buy as large an amount of nitrate as in the past, but the consequences of our shift are serious for Chile.

These divergences in economic interest are acute enough at any time, but probably much more serious are the powerful national sentiments which lead the people of any given country to look with

indifference or perhaps hostility on the economic efforts of people who live under another national jurisdiction. A partial explanation of this is to be found in the existence of the "political myths" elaborated by Francis Delaisi and referred to above. But calling them myths does not make them any less real or important. States of mind confirmed and strengthened through decades or centuries may count for more than demonstrable economic advantages. If, however, there is added the fact that modern governments are entrusted with more and more economic functions, we have a combination of sentiment and of opposing economic interests.

Another obstacle faced by internationalism is to be found in some of the changes that have already been referred to. In general, internationalists advocate freedom of economic movements across national frontiers. These movements are of people, of commodities and services, and of capital. But migration of peoples is now sharply controlled. More and more restrictions are imposed. Not so long ago we thought of passports as a peculiarity of one or two countries. Today they are required everywhere. To one used to the free and easy attitude of the past it is disconcerting and annoying, not only to be compelled to present a passport every time he crosses a national boundary, but even to have it temporarily taken from him in some of the countries which he visits. Not so long ago

Americans were proud to call the United States the "melting pot." Today quotas are assigned for nearly all foreign countries and the number of immigrants from each of them is rigidly restricted. The same is true of the movement of commodities and of services. For a time during the nineteenth century, the barriers to trade seemed to be crumbling, but the trend lasted for only a short while. It has been easy to deplore this but there have been strong reasons for the changed attitude. Free interchange of goods has its advantages, but it brings with it an enlarged dependence upon foreign countries. Although the erection of a particular barrier may be due to pressures from the interests affected, there may be a real disadvantage to any given national economy in being placed more or less at the mercy of economic changes outside its own boundaries. The price of growing autarchy may be unduly high, but the gains it may bring should be noted. They are especially great in war and, with war fears so prevalent, autarchy is easy to defend, even though we may argue that the growth of autarchy may itself be a cause of war. But there are many disadvantages that come from a large amount of dependence even during peace.

Among the changes that have come is the weakened world position of countries that formerly held a dominant place in industrial production. Not so long ago, the industries of Great Britain seemed to

be impregnable. The rise of manufacturing in Germany, in Japan, and in the United States altered the picture. Established British industries have felt the pressures, and since 1900, and particularly since the World War, Great Britain has been modifying her free-trade attitude. Also, in these postwar years, and especially since the depression starting in 1929, most other countries have increased their barriers to imports. Tariffs on imported goods have been raised, quotas have been set up, clearing agreements have been entered into, exchange control boards have been created, restrictive bilateral treaties have been signed. Some of these barriers are traceable to the depression, which we hope is not permanent. Some of them have their origin in the general confusion of a postwar era. But they are to be explained in part by the spread of industrialization and the consequent reduction in the relative advantages formerly enjoyed by certain countries.

Changes have come, too, in capital movements. Again it may be pointed out that some are due to the depression, which has caused many defaults and repudiations. Such losses may, after a time, be forgotten and cease to be an obstacle to new loans. Some, too, have come from the impossible size of the claims on some countries or their citizens. Time will presumably alter this also. But there will probably not be a return of demand for international loans of the old type, at least on the old scale.

Prediction here, as elsewhere, is hazardous but those may be right who point out that many countries formerly ready to borrow abroad will be able in the future to finance their needs more fully out of their own savings. It may be, too, that foreign lending in order to develop and safeguard sources of food supply will be reduced because of the development of the new agricultural techniques that make possible the production of more food and at lowered costs on home lands. Perhaps, however, the chief changes will come in the form of the new investments, a shift from the flotation of securities on foreign markets to "direct investments" by corporations that merely expand their plants abroad without a corresponding increase of stock or bond issues. Also, there may be in the future a higher percentage of short-term or demand loans as contrasted with long-term issues or equities.

Internationalists must accordingly be prepared to adapt their ideas to an altered world. They will presumably find it futile to press for lowered barriers to migration. They will recognize that the international trade of the future may be in different commodities than that of the past. They will remember that economic life is increasingly dynamic, that every industry in every country faces the possible loss of its market advantages almost overnight to competitors with new and cheaper processes or with substitute products that may be

just as good or even better than theirs. Under such conditions we may expect established producers to demand and perhaps to secure protection of some kind against foreign competitors. International migration will probably never be so great as in the past. International trade and investment may reach or even surpass their former volume but their nature and direction will probably be altered.

As usual, generalizations in any direction are likely to be false and what has just been said calls for qualifications and exceptions. In fact, it may be that there are offsetting tendencies that will outweigh those just summarized. Assume, for example, that those are correct who believe that international migration will be permanently or indefinitely restricted. Population growth is slowing down, but there are as yet only a few countries in which there is an approximate balance between the birth rates and the death rates. No matter what the distant future, or even the near future, may bring, there is still an annual increase of numbers in most countries. Moreover, population density is already high in those countries where stability exists. If autarchy is depressing living standards where it is most fully applied and if emigration from those areas cannot be used to relax the pressure, there is all the more reason for lowering the barriers to the movement of trade and of capital. If people cannot pass as freely as before from congested to sparsely

populated areas, from countries where standards of living are being depressed to countries where they are higher or perhaps rising, then freedom of trade should be encouraged as a means of relief.

It is true that industrialization is no longer confined to a few countries and that the newer parts of the world may finance their enterprises more than before out of their own savings. There have been changes in the volume and direction and character of international trade and investment. But it is by no means certain that the volume will continue to diminish. Not only industrial but also agricultural production calls for more capital than in the past and it may well be that domestic savings in the newer countries will still fall as far short as formerly in supplying domestic demands. There may be changes in the composition of international trade, but it does not follow that the total amount (or values) will be permanently reduced. Possibly trade and investment will be greater in the future than in the past.

Some indication of these possibilities is to be found if we notice the position of the United States in international trade. In 1936, our total exports were $2,456,000,000. Of this total, Europe took $1,043,000,000, or 42.5 per cent, and of this amount the United Kingdom took 17.9 per cent, France 5.2 per cent, and Germany 4.2 per cent. In the same year, our total imports were $2,423,000,000, of

which 29.6 per cent came from Europe, with 8.3 per cent from the United Kingdom, 3.3 per cent from Germany, 2.7 per cent from France, and 2.4 per cent from Belgium. We have more trade with the industrialized countries than with those that are not so fully industrialized.

All careful students of international economics are aware that for various reasons even the statistics for trade in commodities are far from precise and that those for international investments are even more difficult to compile with accuracy. Nevertheless, we must accept those available as the best that can be secured. Our Department of Commerce estimates that at the end of 1936 the total of foreign long-term investments in the United States (a highly industrialized country) amounted to $6,108,000,000. This total includes both direct and indirect investments. How these were divided by countries of origin in 1936 we do not know, but the Department of Commerce estimates that of the total of $4,357,000,000 at the end of 1934, Canada, the United Kingdom, France, the Netherlands, and Switzerland furnished 82.4 per cent.

There is certainly nothing to indicate that the spread of industrialization means a check to trade and capital movements between the industrialized areas. Instead, the largest amounts involved in both groups are between countries that are heavily

industrialized. This is to be expected and presumably will continue. In the absence of barriers that are prohibitive in height and strength, business relations are likely to be largest between countries that have the largest population with the highest standards of living, with geographical location an important third factor.

Accordingly, we need not conclude that sweeping changes have occurred that should discourage those who seek to restore or increase the volume and values in world trade.There will be ups and downs, there will be shifts from one area to another, but in all likelihood growth will continue. International dependence is not at an end and will probably increase rather than diminish. Internationalists, however, do need to be aware of the lines of action at their disposal. By this time they are conscious that there are many obstacles to overcome, that some methods of approach seem to be ineffective, and that for the present the tide is running against them.

There are three statements that may be made with some confidence about internationalism. The first is one that supports its advantages and its possibilities. The world is interdependent to a high degree. There is no area of significance that does not rely upon the most distant parts of the earth for some of its economic support. Food, raw materials, markets, shipping, tourist trade, investments, and other factors can be presented in elaborate detail in

support of this contention. The task is that of finding in this complex maze of relationships the common denominator of mutual interests upon which to build plans of action. But at any given time this common denominator may be very small. It varies from one year to another. No matter how great in the long run, it may be more than offset by short-run or immediate emergencies. It may be quite large for certain combinations of countries, but small if all countries are included. There is much enthusiasm for great international conferences attended by all members of the League of Nations or by representatives of all countries. Anyone who has watched such gatherings, either at the ringside or from a distance, is impressed by the limited field of their mutual interests on any special question as well as by the insignificant influence of representatives of most of the smaller countries.

A second statement follows at once as a corollary of the first. There are at any given time, or even through the long run, many conflicts of interest. In fact, liberal groups have placed themselves in something of a dilemma. They have been advocates of peace, of international good will, and of international cooperation, that is, of internationalism. At the same time, they have for the most part favored within each country an extension of social controls which has meant in practice an increase in government functions, both extensive and intensive. But, as has been pointed out, this growth in

government controls tends to organize each national area as a separate economic unit whose interests are in many particulars not identical with the interests of other national areas that may be similarly organized. The resulting conflicts of interest may be real and persistent.

It has been common to insist that if people of good will can only be brought together their disputes can easily be adjusted. This is not entirely true, either in domestic disputes or in international disagreements. A conference of all parties concerned, with a more or less frank exchange of views, may reveal mutual interests that otherwise would have been unnoticed or at least have not been emphasized. It may also bring sharply to the front those real differences of interest that are numerous and that make agreements more difficult. Hence, many resolutions of international conferences are platitudinous or, if they seem specific and potent, are frequently ignored by the governments whose delegates have endorsed them.

There is a third fact that may be emphasized. Where national interests diverge, compromises may be possible. Concessions may be made. In 1927, there was a heavy strain on Great Britain and, after a conference (this time between leaders of the great central banks), rediscount rates were lowered in the United States. The pull on Great Britain for funds was thereby reduced. Yet this action, which was justly characterized as an illustration of inter-

national cooperation, is also an illustration of the conflict between national interests and of the difficulty in determining policies whose effects may be helpful at the time but cause trouble in the long run. Looking back, it seems quite clear that the immediate trouble in 1927 was relieved by lowering discount rates to an unwise level in the United States. At any rate, the lower money rates were promptly followed by a bull stock market in New York, which caused a pull on funds from all parts of the world and was followed by the collapse of 1929. Actions in economic matters have many ramifications.

Yet the third fact may be urged. Where interests diverge, compromises may be found, each side conceding something to the other. This has been done over and over again in the reciprocal trade agreements negotiated by the United States in recent years; in fact, it is common in all trade agreements. France may, as she did several years ago, agree to take more German steel than was advantageous to her in return for a German agreement to take more French wine than the Germans cared to import.

Internationalism is for the time at a low ebb. It has not disappeared and the possibilities for its use are enormous. Probably the reaction from the extravagant hopes for it during the years following the war will be salutary.

Chapter XII

INTRANATIONALISM

There are many ways of approaching the problem to which this volume is directed—that of finding the economic bases of peace. Successive chapters have been devoted to the economic nationalism or imperialism that characterized the nineteenth century, to autarchy, and to internationalism. Later, regionalism and a world economy will be considered, but first something should be said about intranationalism.

It is not to be expected that a clear distinction can be drawn in the actual application of these various approaches. Nowhere can be found a clear illustration of any one of them to the exclusion of the others. In fact, this is one of the theses to which this volume is devoted. Life is too complex to be explained readily by any simple formula, and human actions at any given time are bound to be along different lines, even though they may conflict sharply with each other. From the confused picture, however, it is possible to isolate for analysis each of the approaches that is being described and to attempt an appraisal of its worth.

To citizens of the United States and to others familiar with a federation of states, the idea of intranationalism may be illustrated by reference to the persistent dispute over the interstate and intrastate approach. In the United States, the federal government has certain powers conferred upon it by the Constitution. Beyond the limits thus set it may not go. By the Tenth Amendment, "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." There has resulted a persistent dispute over "states' rights" which will doubtless continue indefinitely. The adherents of a strong central government emphasize the confusion that is bound to exist if each of the forty-eight states undertakes to handle all its affairs as it sees fit. As time has passed, many tasks which were formerly local have taken on new aspects, for the country has become more closely knit together. Notice railway transportation. Only a very few decades ago railway lines were short, and any regulation that was necessary could be provided by each state for itself. By 1887 each of the great systems of transportation had spread over so many states that control became an interstate matter under the Interstate Commerce Commission, which now not only passes on all interstate questions under its

jurisdiction but indirectly affects a large number of issues that are nominally intrastate.

As the years have passed, other economic activities have taken on a national aspect, and the tendency to treat them as interstate has grown. Among them are the electric light and power industry, wage and hour control, and a number of forms of taxation, especially the income and estate taxes. But the controversy still goes on. At any given time it is argued by many that there are issues which can best be handled by each state for itself. While a decision reached by a given state may affect some or many of the others, still it may be expected that each will be best able to look after its own affairs. Presumably there will be a strong tendency for all to move ahead along parallel lines without a central control from Washington and often without any agreements with each other.

Something of this same idea is to be found in the larger field of world affairs. There is no world government. On many matters it is clearly wise for the various nations to enter into agreements of some kind—an international approach. Yet there are always some issues upon which there is no special reason for international cooperation since they are largely or entirely domestic. At any particular time the number of such issues may be larger than at certain other times. This method of allowing many matters to be settled by each

country for itself may be styled intranational. As within the United States or any other federation, we may look for advance in each country in a direction and in a manner that will parallel advances in the others. There is a slight suggestion of the "guidance by an invisible hand," though the idea cannot be dismissed by any caustic references to older economic attitudes.

An excellent illustration of this viewpoint was set forth by President Roosevelt on July 3, 1933, in his message to the London Economic Conference then in session. This message was so important that a few excerpts from it are worth quoting:

> I would regard it as a catastrophe amounting to a world tragedy if the great conference of nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. . . .
>
> The world will not be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only. . . .
>
> The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations. . . .
>
> Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing power and debt-paying power as the dollar

value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

Intranationalism should be distinguished from autarchy. There are points of similarity. Both approaches emphasize sovereignty and independence. Both stress the competence of each nation to conduct its own affairs. Autarchy, however, insists upon the practical possibility of a high degree of national isolation. Some of its advocates seem to favor a complete severance of economic contacts, although most of them argue instead merely for a reduction of those contacts. On the other hand, those who argue for intranationalism, although no clear statement of such an outlook is available, seem to accept a large amount of international interdependence as necessary or advisable but to believe that this interdependence can be more workable and advantageous if each nation operates somewhat independently. Each will do what seems best for itself and the general results will be beneficent for all. The two approaches may blend with each other and at times be almost indistinguishable, yet there is a clear difference in emphasis.

For this view there is much that can be said. Many issues are clearly domestic, and there is no reason to raise them for international discussion. Usually the nature and extent of highway construc-

tion is an internal matter. The care of the indigent and infirm, the control of crime, the development of internal waterways, the amount and form of taxation, especially local taxation, are a few illustrations. Of course, occasions arise when many of these seemingly domestic questions call for some reference to the attitude of others. Thus, highways cross national borders, and it is helpful to have them so constructed that passage from one country to another is facilitated. It may be worth while to have a great continental highway such as that being built in the Americas. Railways as well as highways, if planned solely with reference to domestic needs, may be built in such a way as to obstruct rather than help trade, or primarily with a view to military advantage. Yet there are many matters which, for the most part, are chiefly or solely of domestic concern.

Then, too, international agreements are frequently difficult and more so at some times than at others. It may be that the impossibility or at least the friction and delay in reaching international understandings will be so great as to make separate action by each country the better procedure. That seems to have been the view of President Roosevelt in July, 1933. Although the writer disagrees with his attitude, it cannot be abruptly dismissed. Undoubtedly the interests of Great Britain, the United States, and France were then quite diver-

gent on price levels and exchange rates. It was plausible to argue in favor of an independent position for the United States at that time even though some were unconvinced.

Other illustrations are easily found. For years there have been efforts, especially through the International Labour Office, to secure international agreements regarding wages, hours of labor, etc. If each country, say the United States, had delayed all action on these matters until all or even a fair number of other countries could be brought together on standards, little or none of the recent progress in some countries would have occurred. It may be that price levels cannot be effectively controlled, but the experimentation in Sweden, Great Britain, the United States, and elsewhere would have been indefinitely delayed had none of them gone ahead until an international agreement had been arranged.

Finally, a distinction may be drawn between the importance of prompt action in emergencies and the need for long-run policies which may be along quite different lines. In 1932 and 1933 there were such emergencies to be met. One may disagree, as does the writer, with the devaluation of the dollar by the United States and yet say that if it was at all defensible it was well to act promptly and independently. In the longer run an understanding with others may be possible, as witness the Tri-

partite Monetary Agreement of 1936, but immediate action by any one country may be wise. Intranationalism may be defensible as a temporary procedure in times of stress.

In reply to such contentions it may be pointed out that many of the arguments against autarchy may be listed against intranationalism. The aims may be quite different but often the effects are similar. Although independent action in emergencies or over the long run may not be designed to create isolation and cause strains, they may nevertheless occur.

Perhaps more support can today be secured for independent national action regarding immigration than on any other major world question. For example, the right to control or to check immigration is one of those basic "national" rights of each nation that is usually not questioned. Yet recent extreme restrictions on immigration are most serious in their repercussions. A current illustration is to be found in the issues raised by the attitude of the National Socialists of Germany toward the Jews. An international conference has been concerning itself with this matter but finds its efforts hampered by the limitations on immigration imposed even by the countries whose representatives are seeking a solution. This includes the United States, which took the initiative in calling the conference.

Then there is the matter of price levels. In 1933, the United States government believed that prices should promptly be raised within the United States and that this increase could be secured through legislation and administrative action. Apparently it was felt that efforts in this direction would be blocked or at least hampered by an international agreement to stabilize the various currencies in terms of each other. Let us waive any discussion about the accuracy of this view and assume it was correct. If price levels could be independently adjusted within each country, say in Great Britain and in the United States, one of the effects would be an alteration in the relations of the pound to the dollar. If the pound rose in terms of the dollar—perhaps to $5.50—the effect would be to encourage exports from the United States to Great Britain and to discourage exports from Great Britain to the United States. Perhaps British producers, feeling the competition of American commodities in the British markets, would call for higher protective tariffs or for other restrictions. If, however, the pound fell in terms of the dollar—say to $4.50—the reverse tendencies would follow. American producers would ask for more protection. Independent monetary action by any one country has an effect on the foreign exchanges. And as these foreign exchanges fluctuate within wide and probably unpredictable limits,

an element of uncertainty is introduced into foreign trade, investments, etc. Great Britain, Belgium, and other countries whose foreign transactions are especially important suffer most keenly. But even for the United States, whose economic independence is often emphasized, the effects are far more serious than many realize. The wide repercussions that follow actions taken by any one country is a further reminder of the interdependence of each part of our modern economy upon every other part. There are few actions that can be taken in any one area that are without their influence elsewhere.

Attempts made by any one country to adjust its own affairs with little or no reference to other countries also meet difficulties, owing to the fact that our modern economy is still in large measure that of the nineteenth century. Goods are bought and sold at home and abroad by individuals and corporations whose leaders are dominated by the necessity of selling as much as possible at the highest possible prices. In a large, though lessened, degree competition still prevails. Even where a considerable amount of world-wide monopoly exists in any one industry, as in aluminum, or rubber, or tin, through the organization of great cartels, or "controls," there is nothing like stability. New and cheaper processes constantly threaten the position of established industries, while sub-

stitutes, such as copper for aluminum or rayon for cotton, must always be expected. Every producing group, no matter how large and powerful it may seem, must be forever on the alert. There can be no relaxation in the effort to make sales at home and abroad. Collectivism and monopoly have grown, but competition and production for profit have by no means disappeared. The search for markets persists. When markets have been established, there is a strong, often powerful, interest established in maintaining those markets. Any action by any country that destroys or even threatens a market may affect large amounts of capital and many thousands of workers. And intranational activities have just that effect.

It is useless to expect that if each country operates "on its own" all countries will in some mysterious way have a parallel advance which will raise them together. Instead, actions will be erratic, taken by any one country in the real or fancied belief that gains will follow. Instead, the gains, if any, are almost sure to be offset by losses which will come from the action itself or through reprisals undertaken by other countries.

Yet we must accept a certain amount of intranational behavior as a fact. The older economic imperialism has encountered increasing difficulties, internationalism has its definite limitations, while autarchy is lowering standards of living and

threatens internal revolts and war. It is useless not to expect that freedom of action will be retained in many matters. For good or for ill, we may count on a continuance of this attitude. It will presumably be modified as the world passes through the present critical period of profound political and economic adjustment, but to some degree it will continue indefinitely.

CHAPTER XIII

REGIONALISM

There is a widespread desire among mankind for peace, larger productivity, stability, security, and a less uneven distribution of income. In order to secure such results, important adjustments are needed, not only within every country, but also in the relations of all countries with each other. Our survey has revealed that there is a great diversity of judgment regarding the approach that should be made. It is true that many so-called judgments are nothing of the sort but are only expressions of opinions carelessly formed. Some are little more than habits of thought carried over from the past and perhaps never carefully examined. Others are merely emotional outbursts determined by the psychology of the observer, frequently as a reaction to the play of the propaganda of one or more pressure groups.

Yet even among those who have undertaken careful analyses there are many different conclusions. This is not surprising. Even "intellectuals," who may pride themselves on their detachment and objectivity, must start with assumptions of some

kind, and these assumptions, often not detected or at least not recorded, arise from fundamental differences in personality and from varied experiences. Unlike specialists in natural science, they have few or no social mandates to guide them. The general public has only vague and often contradictory ideas regarding an ideal society.

As a result, there is confusion of counsel. Some advocate a continuance of "capitalism." What capitalism means may not be clear, but it is in some way related to the economic organization and procedures of the nineteenth century and involves private property, competition, and profits. Along with it there is a belief in the importance of political nationalism and the retention by each state of its "sovereignty, independence, and equality." But an unqualified acceptance of this view gives no practical way of adjusting disputes between national groups. There is no limit to the demand for raw materials and for markets and hence no logical stopping place for economic expansion along "capitalistic" and nationalist lines. In the absence of factors introduced by other approaches, there seems to be no way by which our longing for peace and other desiderata can be realized. Yet capitalism and nationalism are still with us and doubtless will persist. They must be reckoned with.

Internationalism has its place and its possibilities, but also its limitations. In spite of the

despair of many of its advocates and the sneers of critics, it is active and presumably will continue. A League of Nations may decline in influence, or may conceivably disappear entirely, but in other ways and through other organs there will continue to be international adjustments and agreements involving larger and smaller numbers of adherents. Intranationalism, too, has its place, as has been urged in the preceding chapter. There are many approaches, not merely one.

Still another is regionalism. A difficulty with internationalism, as usually conceived, is that it is often attempted with so large a number of participants. This is best illustrated by such gatherings as those at Genoa (1922), at Geneva (1927), and at London (1933). They were world conferences in which most countries were represented, some large and some small. Among the delegates were many of intelligence and power, but others of limited ability and without influence. But affecting all their deliberations, both public and private, was the fact that in many matters their interests were so diverse. There was no large common denominator upon which could be built recommendations for action, especially recommendations that could or would be ratified by their respective governments. Hence, the resolutions of such conferences contain long lists of platitudes or, when specific, have more often than

not been ignored when the delegates reported to their governments.

This is not to disparage such conferences but is merely a reminder of their limitations. In the future there will be more such gatherings. But the difficulties they encounter make it desirable to analyze another procedure—that of regionalism—since it may act as an offset to unqualified nationalism and to autarchy and may also supplement internationalism. In fact, it may be characterized as a limited internationalism. Moreover, it may be a desirable or even a necessary step in the direction of internationalism of a broader scope.

Among the difficulties faced by international conferences attended by representatives of many countries, two already noted should again be stated. One, it will be remembered, is the small denominator of interest in such a large group. An action favored, say, by the French and perhaps of great importance to them may be opposed to the real or fancied interests of the United States. The British may desire an agreement which is not to the advantage of the Mexicans. There may be very few proposals that harmonize completely with the interests of all present. The second difficulty is that many questions raised are of little or no importance to many. Thus, issues that seem vital to the Great Powers of Europe may not stir Latin Americans or even the United States.

There are, however, more limited groups whose interests cover a broader range and for whom agreements are of great importance. The United States and Canada have more in common than do Paraguay and China, or Turkey and Chile, and at the same time have few opposing aims. There are, of course, some questions to which the United States and Canada cannot readily accept the same answers, but their field of mutual advantage is relatively large and that of opposing advantage is relatively small. It may be said that the long struggle over reciprocity and the present differences over the development of the St. Lawrence Waterway indicate the opposite, but in convincing reply may be cited the many years of amicable relations and the large volume of commerce and investments between the two.

Some regional plans are so grandiose that they could not well succeed in the face of the forces opposed to them. One of these was the proposal for a "United States of Europe." It had many proponents. One was Count Coudenhove-Kalergi,[1] who pictured a world divided into five great areas: the British Empire, the Soviet Union, Eastern Asia, Pan-America, and Pan-Europe. The countries included within each of these areas have much in common. Although it is true that there is a lack of mutual interest on many matters

[1] See his "Pan-Europe," New York, 1926.

within each group, there would be a great gain in adjusting all those upon which there is no real conflict.

To those who dismiss such ideas as visionary it may be pointed out that an appreciable advance toward them has actually occurred. Through policies of imperial preference, recently expressed in the Ottawa Agreements of 1932, the British Empire (or Commonwealth of Nations) has demonstrated a considerable degree of economic and political unity, though it must be admitted that in recent years the British Empire has moved definitely toward decentralization. There is a separately organized Soviet Union. Eastern Asia is more under the political and economic dominance of Japan than ever before, even though that dominance is being contested by China and by Russia. Japan may fail in her efforts, but it is not at all impossible that the future may see an economic and political unity in Eastern Asia greater than in the past, either through the leadership of some one country or through agreements that will, on the positive side, provide for freer trade and investment among the countries of Eastern Asia and, on the negative side, exclude the Western Powers. Friction between the countries of America is common and there is often pronounced hostility in Latin America toward the "Colossus of the North," but here, too, there

are many signs that there is a large area of common interest. It is easy to overemphasize the tendency expressed in the "Good Neighbor" slogan, but there is enough of a trend toward a Pan-America to warrant the contention that it exists in part and that it may grow as the years pass.

A Pan-Europe is further from realization. On the political and on the economic side the arguments for it are strong. Its economic advantages are clear and have been forcefully presented by many, including Francis Delaisi,[1] who is thought by some to have strongly influenced the late Aristide Briand in his advocacy of the plan for a "European Federal Union" at Geneva in 1929. The idea was given definite consideration. There was an interchange of views among the twenty-six European members of the League of Nations with the suggestion of a European conference and proposals for economic collaboration. Thus far the movement has made no progress and the intensity of the strain that has developed in Europe since 1929 debars it from serious consideration for a long time to come.

These obstacles to regional agreements over large areas have resulted in a great deal of pessimism. That there is abundant reason for dis-

[1] See "Les Deux Europes," Paris, 1929.

couragement need not be denied, but no picture would be complete if it failed to include a treatment of regionalism. There should be recorded, not merely such plans as the ones which have been urged by Count Coudenhove-Kalergi and which have made at least the progress outlined above, but also certain other possibilities and movements upon a smaller scale. Each of the less pretentious efforts has encountered obstacles, but they have a significance that should not be overlooked.

Attempts to establish economic interdependence upon a regional basis may be grouped under two headings. Some rely upon voluntary participation, while others depend largely upon compulsion. Briand's European Federal Union, the Oslo Convention, and the Ouchy Agreement are of the former type. The *Drang nach Osten* of Germany and the drive of Japan against Manchukuo and China are of the second. For the moment we are not concerned with the emotional reactions that are felt at least by the majority of Americans in favor of the former and against the latter. Of course, the voluntary agreements do not entirely lack compulsions, and those in which compulsion seems to predominate may have among the participants some who are more willing to "go along" than many critics will concede.

The Ouchy Agreement may be mentioned as an illustration of the voluntary type. This was

entered into in 1930 by Belgium, Luxemburg, and the Netherlands. It contained four features:[1]

1. Not to increase existing tariff levels against any country.

2. To reduce tariff levels between themselves by a considerable amount in successive stages over a period of five years.

3. To invite any other country to enter the agreement on similar terms.

4. To admit to the agreement not only countries observing conditions similar to those adopted by the original participants but also countries which, without complying with the specific conditions, had tariff rates at least as low as the rates fixed in the agreement.

From all who are sympathetic with a reduction of the barriers to international trade such a program brings a favorable response. It seems to be a practical application of the resolution of the World Economic Conference (Geneva, 1927) that "the time has come to put an end to the increase in tariffs and to move in the opposite direction." To many, the fact that this agreement was not effective is a cause of profound disappointment.

Certainly many favorable factors were present. The countries concerned were small, few in number, and contiguous to each other. Many of their

[1] J. H. Richardson, "British Foreign Economic Policy," p. 120, New York, 1936.

interests were mutual and the fact that the agreement was entered into seems to be evidence that each of the signatories felt that it had more to gain than to lose.

Yet we have here an excellent illustration of the complex relationships of the modern world. One of the most approved features of international commercial agreements has been the "most-favored nation clause," especially in its unconditional form. This clause is one in which each of the parties to the agreement pledges itself to grant in the matters specified the same and equal treatment to the citizens of the other state as to the citizens of any third state. This most-favored nation clause was approved by the World Economic Conference of 1927 in the following words:

> The Conference therefore considers that the mutual grant of unconditional most-favored nation treatment as regards Customs duties and conditions of trading is an essential condition of the free and healthy development of commerce between states, and that it is highly desirable in the interest of stability and security for trade that this treatment should be guaranteed for a sufficient period by means of commercial treaties.

The most favored-nation clause also has been deemed so important that it has been regularly included in the reciprocal trade agreements negotiated in recent years between the United States and numerous other countries. Yet it seems to

have proved an obstacle to the carrying out of the Ouchy Agreement. There have been no official pronouncements on the matter, but it is quite generally understood that the opposition of Great Britain was effective. Any reduction in tariffs by a member of the Ouchy group in favor of the other members of that group would have at once entitled to a corresponding reduction any outside country which had in some prior treaty included a most-favored nation clause—and without joining the Ouchy group in its general program. It is said that the United States was willing not to press its rights under any such treaties, but that the British government took a different position.

The Oslo Agreement entered into in May, 1937, by Belgium, Luxemburg, the Netherlands, Sweden, Norway, Denmark, and Finland, of which also the Netherlands Indies was a party, seemed to be a more effective approach. This agreement was one under which[1] "Belgium, Luxemburg and the Netherlands, which have quota systems, agree to abolish quotas for specified products from the other signatory countries and not to increase tariff duties on these products. The remaining countries promise not to increase tariffs or introduce quotas on specified lists of commodities." It will be noticed that this agreement did not reduce existing

[1] "World Economic Survey, 1936–1937," p. 148, League of Nations, Geneva, 1937.

tariffs but merely provided that they should not be raised, a plan which did not infringe upon the most-favored nation rights of other countries. Since the imposition of quotas had not been protested as an infringement of such rights, it was hoped that their elimination would not be so regarded. Nevertheless, "substantial tariff reductions could not be negotiated, since all other countries which had most-favored nation agreements with these countries could automatically have enjoyed the tariff reductions without granting similar concessions; and in view of this and of the unfavorable trend of world trade, the agreement could not be prolonged when it expired in July 1938."[1]

Other regional attempts of the voluntary sort have been numerous. The Little Entente—Czechoslovakia, Rumania, and Yugoslavia—maintained for a long time a common front on some economic matters as well as on political issues. Efforts have been made to further similar common action in the Danubian area. Also, there was the "gold bloc" of Central Europe which persisted for some time subsequent to 1933 but finally collapsed. There were the numerous bilateral agreements negotiated at Ottawa in 1932 which, through an increase of preferential arrangements, bound together more

[1] "World Economic Survey, 1937–1938," p. 169, League of Nations, Geneva, 1938.

closely the widely separated parts of the British Commonwealth of Nations. Reference should be made, of course, to the attempted Anschluss between Germany and Austria which for political reasons was an impossibility even before it was outlawed by the World Court in 1931. Also, much might be said of the nineteenth century Zollverein and of many other of the older groupings of wider or narrower scope and of more or less permanence. In many directions there have been formal agreements, related bilateral treaties, and more or less informal understandings which may be called regional. They range all the way from arrangements that are clearly of the regional type to others that are hard to bring within such a classification.

Even regional agreements that are "voluntary" are not entirely lacking in elements of compulsion. The other type which we have called "compulsory" are not entirely so. Yet in many cases the compulsory features are dominant. Such is the vigorous drive of Japan for political and economic hegemony in Eastern Asia. Such also is the endeavor of Germany to extend its political and economic leadership in Central and Southeastern Europe. The pressures applied are economic, political, and military. To the extent that they prove successful, larger areas are brought under a common influence or perhaps complete control.

Does regionalism offer the prospect of bringing to mankind any of those results which we have argued or assumed to be important? For them there is much to be said. As always, we may do well to content ourselves with small gains when we can find no way of attaining all that we want. Sweeping agreements involving all or many countries are difficult to negotiate and even more difficult to enforce, as has been recently shown in the attempted application of economic sanctions against Italy.[1] It may be that halfway measures, though less satisfactory, will ease some of the tensions and act as a stopgap, at least for a time. It is not impossible that we should take a half loaf since we cannot get a whole one.

In so far as they are effective, they ease the economic strains between the countries included. If the parties to the Oslo Convention could have abolished quotas and not increased tariffs among themselves, they would have raised somewhat their standards of living and have eliminated some of the causes of international friction, although the area involved was relatively small. There is every reason why we should welcome such gains even if they are slight. Without condoning in the slightest degree the aggressions of Japan against China

[1] See "International Sanctions, A Report by a Group of Members of the Royal Institute of International Affairs," London and New York, 1938.

and with a full realization that the violation of solemn treaties by many countries raises new and more terrible issues than any that are solved, there is no reason why we should not record the fact that, taken by themselves, effective reductions of trade barriers within any area have certain advantages. Unfortunately, the accomplishment of this by methods of compulsion has presented us with a situation far more disturbing than the one it professes to relieve.

There are several arguments against economic regionalism. One is its lack of universality. Regional agreements include only a few countries, not all. The procedure falls far short of the ideals of internationalists who have hoped for such all-inclusive agreements as are attempted by world economic conferences. The charge is correct. The reply is that bitter experience has shown the difficulty of securing agreements among the larger groups and that there is much that may be gained by bringing together smaller combinations among which agreement is possible.

There is no reason why attempts at world-wide agreements when and where they are possible should not be continued. There is nothing about the Oslo and Ouchy efforts that adds to the obstacles already faced by internationalism on a wider scale. Yet the regional groupings that are brought about by compulsion may be fairly charged with this

weakness. It seems more probable, for example, that German economic dominance in Europe or Japanese dominance in Asia will have this effect. However, it may be that we must accept regional arrangements as a necessary and even advisable step in our progress to world-wide understandings.

A second objection is that the formation of larger economic blocs will not lessen but will merely intensify rivalries and bitterness. It may be argued that although the economic strains between a number of small nations are serious and should be reduced, the conflicts of interest between combinations of countries will be on a larger scale and merely be more bitter and more dangerous. This may well be true, but it is probably applicable only if the regional groupings are compulsory. At any rate, critics most easily and most often point to Central Europe and the Far East of today for their illustrations. The argument is most significant when the conditions outlined below are not present.

A third objection is that regional combinations are often exclusive in nature. They may tend to alter existing channels of trade and force the movements of goods away from older markets. If this is the case, much older trade is destroyed, new markets can be developed slowly, if at all, and the aggregate volume of trade is reduced or its growth is seriously retarded. At the same time, past investments within the region concerned made by

nationals not included in the agreements may be greatly reduced in value or entirely wiped out. Again it is necessary to concede that there is much force in the argument, but two comments should be added. One is that under the chaotic conditions of recent years these same troubles have existed and on a huge scale, but for other reasons. Another is that the consequences that are feared are dependent upon the nature of the agreements entered into.

On balance, the arguments, at least in the mind of the writer, are in favor of encouraging economic regionalism, but on certain conditions. There is no occasion to give unqualified approval to any procedure. All are subject to abuses and to limitations. It would appear that the following conditions should be observed:

First, there should be a real community of interest among the countries that are brought together. As already suggested, this "common denominator" should be fairly large. All parties included must clearly have much to gain, since there will probably be losses for all. The Ouchy and Oslo agreements seem to be of this sort. The less formal but very significant relationship between the United States and Canada is another illustration. But the forceful domination of China by Japan would probably bring more loss than gain to the Chinese and possibly to the Japanese.

A peaceful, conciliatory approach to China by Japan would be an entirely different matter.

Second, there are more gains if the countries included are adjacent or at least fairly close to each other. Perhaps if they are not, we should avoid the term "regional." If it is not to be applied in such cases, the Ottawa Agreements of 1932 should not be used as an illustration, but we may at any rate point out the difference between an agreement entered into by a mother country and widely scattered dominions, and similar understandings such as those reached by the Scandinavian countries, or those among the Little Entente. Even the too-sweeping proposals for a United States of Europe, if they could have been effective, would have brought together countries that are adjacent. Moreover, there would have been large mutual gains because of the advantage of a freer exchange of goods between the industrialized areas of Western and Northwestern Europe and the agricultural countries in the Southeast.

Third, regional understandings should not provide for mutual advantages that are secured by raising trade barriers to outsiders. Instead, the gains to the world will come either through a general lowering of barriers or, if discrimination is maintained, by reducing the barriers among the participants without raising them to others. Un-

fortunately, the general trend of the Ottawa Agreements was the reverse. Preferential treatment within the Commonwealth was accomplished by restricting trade with the rest of the world. It seems clear that a similar procedure in a more extreme form will be followed by the Japanese if they are successful in conquering China.

Chapter XIV

A WORLD ECONOMY

Terminology always presents difficulties and probably more such troubles are encountered in the social sciences than in the natural sciences. Many discussions of "international relations" refer without distinction to "international" and to "world" problems. Yet there is a need to discriminate between an "international" economy and a "world" economy.

In spite of the dangers in arguing from analogy, the point may perhaps be made clear by referring once more to the United States. The United States is a federation of states, each of which under the federal Constitution retains for itself and for the people all powers not conferred upon the federal government. Yet certain powers have been so conferred and to this extent the states are minimized in importance. In many matters the central government is supreme. Through an amicable arrangement, disturbed by disagreements of which the most tragic was the Civil War of over seventy years ago, this federal supremacy has been workable. In many matters the United States, though a federation, is a political unit.

Pressures of many sorts have brought this about. Some of them have been external, as toward the end of the eighteenth century when the Articles of Confederation were found to be inadequate and the Constitution was adopted, albeit slowly and with many difficult compromises. Since that time, in spite of a continued and often wearisome controversy over "states' rights," the power of the federal government has grown.

This change has been due to many influences, among which are the economic. As the railroads have grown from short lines, each often located within a single state, to great systems operating over many states, control over them has passed largely to a federal body, the Interstate Commerce Commission, whose supervision in its practical effects pays little or no attention to state boundary lines. More recently, the electric light and power companies have extended from intrastate confines to operations (or often merely controls through holding companies) over many states. Federal supervision in this field is rapidly developing, though in the face of controversies that are often bitter. With the growth of public sentiment in favor of maximum hours, minimum wages, and better working conditions and with the development of labor organizations on a national basis, the federal government, through the Department of Labor and special commissions and by the

enactment of legislation, is entering this field too. Reference may also be made to regional developments under federal aegis of which the activities in the Tennessee Valley are the most prominent illustration.

Over a vast area of more than 2,383,000 square miles, with a population of about 130,000,000, there has been developed a "national economy" as distinct from a collection of forty-eight separate states adjusting their mutual problems through interstate discussions and agreements. One of the most important reasons for this is that so many problems have a national rather than a state basis and increasingly so with the advance of technology in all fields. In spite of heated arguments over each extension of federal authority, the movement goes on.

But this broadening of the "base" has in many directions passed beyond national borders. The development of navigation and of power along the St. Lawrence River concerns both Canada and the United States. Transportation by rail, automobile, and airplane crosses national borders in all directions. Communication by telephone, telegraph, and wireless is possible with nearly all parts of the globe. Corporations like the International Telephone and Telegraph Company, Electric Bond and Share Corporation, and others have their interests in many countries, not merely

in one. Standards of living and costs of production in Japan and India affect the Americans, the British, and others. An increasing number of our modern activities have a world rather than a national basis. In so far as they give occasion for discussion and for action, perhaps through controls, there is a need for a world approach. Valuable though *international* action and the development of an *international* economy may be, there are increasing arguments for a *world* economy.

What is or what would be a world economy? The international approach to economic and political questions has been described. It retains, at least nominally, the sovereignty, independence, and equality of the negotiators. In a variety of ways and through many agencies, both public and private, attempts are made to adjustment and conclusions are recorded in agreements. But the separate national identity of each group is retained.

A world approach would be one in which little or no attention would be given to the nationality of the groups or companies concerned. The board of directors of a world corporation would be chosen as are the boards of directors within any given country. A world bank would extend credits without reference to national boundaries, but to borrowers whose credit worthiness would not be related to their nationality and who would perhaps be of different nationalities. On the other hand,

the liabilities of such an institution, its notes, its deposits, and even its capital would be similarly free of national connections.

To many this will, of course, seem chimerical. Perhaps it is, but a brief exploration shows many signs of development along just these lines. Instead of dismissing the idea, it is well to emphasize the need for such a development and the extent to which it has already occurred.

There are three main forms which such a world economy may take. No clear borderline can be drawn between political and economic science. Political and economic activities are closely interdependent. Nevertheless, we may refer to (1) public or governmental forms, (2) semipublic, and (3) private. Something may be said of each.

As yet we do not know how to organize and operate a world government. International agreements and organizations are numerous, but at present a world government seems even more remote than it did a few years ago. None of the many and frequently changing number of countries is willing voluntarily to surrender or even to qualify its sovereignty, and upon such surrender or qualification a world, as distinct from an international, order must rest. Even the international approach is experiencing a reaction.

Apparently a world political order must be postponed indefinitely. The size and complexity of

the task are too great. National sentiment is too strong. Even the academic mind has been baffled in the search for an acceptable political formula. Political nationalism is still dominant.

At times there has been a pronounced trend toward larger political units. For several hundred years "state making" went on with larger national units taking shape. Imperialism extended political frontiers beyond the borders of each mother country. But this movement has been retarded and in some directions temporarily reversed. The World War with the subsequent peace treaties brought into existence many new and small countries, especially in Europe—a movement often called the Balkanization of Europe. The British Empire is now known as the British Commonwealth of Nations, in recognition of the weakened power of the home country. Trade, investment, and immigration barriers have grown.

But there is an ebb and flow in such movements. A reaction has set in. Without intending a forecast of future trends, it may be pointed out that the political as well as the economic independence of numerous smaller countries is being lessened. Within the last few years Italy has conquered Ethiopia and taken over Albania, Germany has absorbed Austria and Czechoslovakia, and Spain has apparently come under the dominance of Germany and Italy, especially the latter.

On the other hand, people everywhere are becoming world conscious. The United States is no longer a remote area but is so powerful in world affairs that its government is no longer ignored but consulted. Moreover, the people of the United States are more and more aware of world matters and of their significance. They have not forgotten that, although the slogan "He kept us out of war!" aided in the reelection of Woodrow Wilson in 1916, the United States declared war on Germany only a few months later. The United States has at present a Neutrality Act, but its early repeal or modification is being actively discussed. Similar comments varying in their emphasis can be made regarding the attitude of people in all parts of the world. Yet a world government, even of a shadowy type, is not in sight.

The same must be said of a world economy if by it we mean an organization formally recognized as being on a world basis. Nationalistic attitudes are too strong for such a development. In spite of the world-wide interests of business, we still have an International Chamber of Commerce and not a World Chamber of Commerce. Many of the so-called cartels which are so influential in world business are operating under agreements entered into by businessmen organized first of all by national groups. There are not many signs of a "world economy."

But there are some. First, there are a few, not fully developed but at least in embryo and with possibilities for growth. For many years before the war there was far more than a hint of a world monetary system in the world-wide use of drafts on London. The pound sterling, though not supreme, was a generally accepted means of payment in many countries besides Great Britain. Bank of England notes and drafts on British banks were in a strong position. In later years there have been times when the United States dollar has been almost as widely accepted. In spite of their national origins, these currencies have at times served to an important degree as world currencies.

Then there is the Bank for International Settlements—the B.I.S. It is an illustration of an international approach, but with the possibility of its becoming a world institution. Its capital was raised by securing a designated amount from each of a number of countries. Its board of directors included governors of central banks who could not and did not fully divorce themselves from their national attitudes. Much of the work of the bank for years was devoted to handling intergovernmental payments, especially reparations payments. Yet there was something of a world outlook. Many hoped that, in spite of the necessity of concentrating so much attention upon the adjustment of the conflicting interests of different national

groups, there might develop an actual world bank. It may yet become one. It might conceivably issue its own notes, which could be used as money. Drafts upon it might become widely acceptable for other payments than those between central banks and governments. It might extend credits to borrowers of various types with reference to their credit worthiness and with no consideration of nationality. In the B.I.S. there is at least the potentiality of a world bank and of a world currency system.

But it is in private business that there is the most definite evidence of a developing world economy. Nowhere are the national features absent, and often they are dominant. Yet many of our largest corporations are conducted in such a way that nationalism is largely absent and even international features are subordinated. There are parent companies chartered under the laws of some one country and operating under license or through subsidiary corporations in many other countries. Although they may seem to be "national" or "international," many of their activities throughout the world are so consolidated that their national and international character are definitely overshadowed by their world features.

There is no occasion in such a volume as this to describe the structures of the great cartels. As the world is now organized, each of them must be

organized and incorporated in some one country. If the capital and the controlling group entirely or largely originate in this way, the structure should probably be considered as fitting in with the economic nationalism or imperialism of the nineteenth century. If the producing or marketing interests are first brought together on a national basis and then negotiate as national groups, the resulting agreements are international. Such is the nature of the European steel cartel. To the extent that capital is provided with no reference or with only nominal reference to its national origin, and to the extent that direction and general control are exercised as they are over a strictly intranational company, the organization takes on the character of a world corporation.

There are many such tendencies, though almost any illustration that might be presented would need to be qualified in many ways. Here, as elsewhere in economic matters, the trends are mixed and often contradictory. Also, it can be observed that many false hopes have been roused in the past among those who have believed that the interlocking of economic interests would prove to be a safeguard against economic strife and war. In 1914 such hopes were blasted, although evidence has been advanced to show that during the World War German-owned properties in France and French-owned properties in Germany were spared.

As this is being written, attention is called in the press to the report that French interests some time ago acquired control of the munitions plants at Skoda in Czechoslovakia. The matter receives attention because it seems quite clear that this economic interest, if it exists, will be ignored or altered by Germany.

Tendencies toward a world economy have not gone far enough to offset the many other influences at work. For the time being, new political alignments are in the making and until they are developed national economic self-sufficiency will be in the ascendant with a continuing drive, *e.g.*, by Germany, to extend the area of national control in directions that will increase economic independence. There may come a new equilibrium with a revival in international trade and investments and a spread of the type of economic organization that we have called a world economy. As a separate force it would make for stability and peace, but as yet it is weaker than the other forces which operate against it.

If we assume that with the passage of time a world economy will make some progress, there are still left for consideration some of the new problems that would be raised. In human affairs there are no final "solutions" but merely a series of adjustments which may relieve some tensions but which ordinarily create tensions in other

directions. At the World Economic Conference in Geneva (1927), this was fully realized, and the opposing considerations were so nearly balanced that the sections of the conference report dealing with what were called "International Industrial Agreements" avoided any clear recommendation. In the conference debates much was said of the possibility that these large combinations might charge extortionate prices and lessen the bargaining power of workers, who might find their strength weakened in the face of a consolidated capitalism. One passage from the report is as follows:

> The Conference has laid down no conclusion of principle on the subject but recognizes the growth of agreements as a development which may be either good or bad according to the spirit in which they are constituted and operated and the measure in which their directors are actuated by a sense of the general interest. Agreements cannot by themselves be regarded as the only remedy for the present causes of economic trouble; but, within limits, they may serve to improve the organization and reduce the cost of production. By checking uneconomic competition and diminishing industrial fluctuations they may make employment more stable while benefitting the consumer. Nevertheless, agreements may involve danger if they encourage monopolistic tendencies and unsound business methods.
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> The Conference therefore lays it down that agreements ought not to lead to an artificial rise of prices and that they should not restrict the supply to any particular country of raw materials or basic products or, without just cause, create unequal conditions between the finishing industries of

consuming and producing countries or other countries similarly placed. Nor should they stereotype the present position of production or the distribution of industries.[1]

This chapter may be summarized by saying that there are definite signs of a developing world economy. Its growth arises out of the increasing interdependence of all parts of the world and from the development of modern technology and from the nature of modern corporate organization. The term "rationalization" has in recent years been used to describe

> . . . the methods of technique and of organization designed to secure the minimum waste of either effort or material. It includes the scientific organization of labour, standardization both of material and of products, simplification of processes and improvements in the system of transport and marketing.[2]

This rationalization movement, if carried out as the above quotation describes it, cannot logically stop at national boundaries. Nor will it in practice stop there except as its tendencies are offset by opposing influences of the sort that are now so powerful. Its progress will be retarded. From time to time there may be, as at present, a clear reaction against it. With a new political equilibrium, we may look for its revival. To the extent that it grows it will be a consolidating and stabilizing influence.

[1] "Final Report," p. 10, World Economic Conference, Geneva, 1927.
[2] "Final Report," p. 41, World Economic Conference, Geneva, 1927.

Chapter XV

SEVERAL FUNDAMENTALS

Preceding chapters have failed in their purpose if they have not made vivid the inadequacy of any one approach to world problems. As always in social life, changes are occurring, but the rate of change is constantly increasing. Economics is dynamic, not static. The thoughtful citizen studies the political and economic procedures of the past and the interpretations that have been given them. If his mentality is inelastic, he may cling blindly and foolishly to doctrines that should be adapted or even abandoned. If he is not well balanced, he may too hurriedly break with the past, espousing new and ill-considered ideas whose application will merely make a difficult situation far worse.

This fourth decade of the twentieth century is a period in which the world is undertaking extensive readjustments, both political and economic. No survey can include all that is involved and any attempt is likely to fail by overemphasis and by omissions. Readers of the preceding chapters will find much to criticize. Some will feel that undue emphasis has been placed on certain points and

too little emphasis on others. Enthusiastic believers in nationalism of one type or another will doubt whether internationalism is a practical program. Convinced internationalists will deplore the emphasis that has been placed upon other lines of action. Nevertheless, the writer clings to the view that no one approach is sufficient, that all should be considered, and that the emphasis upon each should be shifted as conditions change.

Moreover, a few words should be said about what is often called the solution of a problem. Perhaps in mathematics and astronomy and the other "natural sciences" there are final solutions, though even this is debatable. But in social affairs, at any rate, permanent answers are not possible. A problem exists when men have fairly clear desires regarding what they want and when existing institutions and procedures are a hindrance rather than a help in attaining these goals. The problem is that of finding adaptations which will aid rather than hinder.

Most of us long for what we call solutions, by which we mean changes which will permanently remove all causes for dispute—that will completely end the controversy. Such hopes are vain. Since the early part of this volume was written in its preliminary form there has occurred the famous meeting at Munich where representatives of Great Britain, France, Germany, and Italy undertook

a settlement of their differences. A great war was averted or at least postponed, but a storm of controversy has been started whose outcome no one can foresee. Only a few months later there came another European crisis and the subjugation of Czechoslovakia and Albania. No matter how or when such crises develop and no matter what the skill with which they may be handled, we may confidently expect that after they pass there will be a new combination of forces and still other problems will confront us, calling for new "solutions" which will in turn raise still other problems. There is no final solution, but merely a series of adjustments.

Much that has been said has probably given the impression that our modern world problems arise solely or at least chiefly because of the opposing interests of national economies, that there is a clear vertical cleavage between nations. Many writers are pointing out that while these vertical cleavages exist with individual national economies or groups of national economies opposing each other, there is also a horizontal division within each country. To the Marxian socialist it has been a conflict between "capital and labor" or between "the bourgeoisie and the proletariat." This internal strife gave to the proletarian groups in different countries certain interests in common, as it did to the bourgeois groups, and led many to talk

at times of a world-wide capitalism which was opposed to a world-wide proletariat. Much was said of an "international" socialism. There may have been some truth in such an analysis, but the outbreak of war in 1914 showed that the ties binding workers or capitalists in one country to those in another were, on the whole, weaker than their feelings of national loyalty.

Now we are talking of conflicting ideologies—of democracy versus totalitarianism or fascism. In one country after another there has been a struggle between the two views, presenting us not merely with the old vertical division between the national economies but with a horizontal division cutting across them all. In some countries, as in France and in Belgium and as a few years ago in Germany, this internal conflict has been clear and acute. In some it has largely disappeared, at least for the present, as in Germany. Some of the countries with ideologies that are dominantly fascist have joined forces, the leaders being Germany, Italy, and Japan, and more recently, Spain.

If we could only conceive of the situation in simple terms, an analysis would not be so difficult. An opposition between capital and labor or between democracy and autocracy can be so stated as to stir the emotions and rouse us to enthusiastic support of one side or the other. From time to time this happens, as has been evi-

dent in the United States during the last several years.

But if we respect reality rather than myth there is much to be added. There is a difference between the spirit and procedures of democracy and autocracy. But many have observed that, no matter what modern terminology is employed, the combinations of national powers today are similar to those prior to 1914. Germany, with enlarged borders, has a working agreement with Italy—the Rome-Berlin Axis, which is remarkably like the Triple Alliance of years ago. France and Great Britain are standing (or retreating) together and, in spite of reversals of attitude, are not entirely averse to cooperation with Russia, the old Triple Entente in new guise. Japan is opposing Russia much as she did forty years ago and, in spite of certain understandings with Germany and Italy, seems at times to shift in her attitude toward them. The United States still maintains an uncertain and wavering isolation, no longer talking of "dollar diplomacy" but of a "Good Neighbor" policy and of a new kind of Monroe Doctrine. The scene is the same though different. It has been altered in some ways but not in others.

Much is said of "cultural lag." Some phases of life alter more rapidly than others. The natural sciences and their application in business change more quickly than our social institutions, which

from time to time must be adjusted to the new conditions—to the altered technology. Over and over again this has occurred. The later years of the eighteenth and the early years of the nineteenth century were a time of such adjustment. The French and American revolutions were a part and perhaps a necessary part of the process. There emerged new forms of political organization better adapted to the technology of the day. Less dictation by governments, more emphasis on the individual and his "rights," enthusiasm for "liberty, fraternity, equality" and for the right to "life, liberty, and the pursuit of happiness" were the outstanding aspects of the time.

Again, our institutions have lagged. Technology has forged ahead. The superficial area of the earth is unchanged, but for business and social purposes our globe has shrunk to a fraction of its former size. Economic nationalism or imperialism of the nineteenth century variety, practiced by both autocracies and democracies, could operate for a time, but more and more friction appears. Real or fancied population pressures cannot now be relieved by migration to the extent they were a century ago. New colonial areas in the less developed parts of the world are no longer available for acquisition and exploitation by a few leading Powers, and they accordingly struggle over the distribution or redistribution of colonies already

under their domination. Some zones of influence, such as those in Asia, are breaking away from Western controls. First-rate powers are extending their controls over second-rate powers by outright absorption or by increased political and economic penetration. Recently there have been wars, declared or undeclared, in Asia, in Africa, in South America, and in Europe.

In this confusion are great business enterprises with their world-wide struggle for raw materials and for markets, with their investments in many countries, with their thousands of stockholders, and with control, as distinct from ownership, often concentrated in a few hands. Yet they are organized primarily on a national basis and often claim support or protection from their respective governments, as in the current controversies over the properties of American and British nationals in Mexico. Or, governments have encouraged businessmen to establish themselves in foreign areas in order to assist those governments in the ultimate extension of political controls.

For a time this was a possible procedure that could be followed with a minimum of friction. But as the controls were extended the rival powers impinged upon each other in Asia, in Africa, and elsewhere. There was no logical stopping place for any of them. In a few areas there were mountain ranges or oceans and even channels of water that

imposed a check, until modern transportation and communication and new military techniques lowered or removed these barriers. There was no limit that could be set to the raw materials desired by great industries nor to the markets for which they clamored. Living standards varied from one part of the earth to another, with a tendency for population with low incomes to migrate to territories where standards were higher.

Critics were not slow to allege that the resulting clashes were due to the capitalistic organization of society. In some particulars this was true. But there were strains and stresses between nationalities for thousands of years before the appearance of capitalism and no one has yet demonstrated that its abandonment for socialism or for some other form of economic organization would end such conflicts. At best, they would be modified in form, but in substance they would probably continue, perhaps with even greater violence.

After the outburst of 1914–1918, the first really thoroughgoing attempt was made to lessen international friction through cooperative effort. The "international" approach was elaborated. The unfortunate absence of the United States from the League of Nations was a serious handicap, but in any case there was no possibility that such an organization could do all that was expected of it. Perhaps a "league" is inherently a weak device

and a "union" would be better even though it included only a fraction of the countries of the world.[1] Certain it is that at present the League of Nations is under a cloud. The present danger is that its inability to do all that many expected and demanded may lead to its further abandonment. Within the limits set by the nature of world economic and political organization, there is much that it can do, and as time passes more will gradually be possible. Its dissolution would be tragic.

Again we see an alignment remarkably similar to the old balance of power. It, too, has its weaknesses. Within each alliance or entente there are rivalries. The combinations, weak as they are, hold together temporarily only to the extent that they have interests in common and these interests are their fear of external groups. As these oppositions to outside nations or combinations are diminished through victories or stalemate, the rival interests of Germany and Italy, of Great Britain and Russia will presumably reappear. In the meantime, there is always present the fear of another world conflict.

But suppose the regional groupings we have discussed should be developed. How about the economic and political oppositions between a Germanized Central Europe and Russia or the British Commonwealth of Nations, between an Eastern Asia led by Japan and Russia or the United

[1] See Clarence K. Streit, "Union Now," New York, 1939.

States in the Pacific area? An enlargement into regional groupings does not eliminate the fundamental causes of strain. Perhaps they will merely exist on a larger scale, between units that will be more powerful and more bitter in their hostilities. On the other hand, it may be that adjustments can be made more satisfactorily between a few large combinations than between fifty or sixty countries large and small, each with its national pride and aspirations and with its pretensions to sovereignty, independence, and equality.

So far as we poor human beings can see, there is no millennium in prospect—nothing but one adjustment after another, each bringing new strains, possibly worse than the ones that have been relieved. In the meantime, there are several economic considerations to be kept in mind. Economic organization and procedures are rapidly changing. Economic relations are under intense strains. Until some of the more pressing of these current problems are at least partially adjusted, political turmoil cannot be lessened.

Notice, first, the monetary strains. Within each country during the last twenty-five years the national currency has suffered. The extreme inflations in Germany, in Russia, and in Austria have not been equaled in Great Britain, France, Italy, the United States, and elsewhere, but even in this second group of countries there have been inflation

and deflation. These price movements have placed pressures first upon one group and then upon another, with discontent and, in some cases, revolutions or near revolutions as a consequence. Particularly serious have been the results of deflation. Agricultural groups, manufacturing groups, banks, and railroads have been clamoring to their governments for relief. Unemployment has existed on a vast scale and still persists in many countries. Relief has been extended, with resulting government deficits and with persistent fears of new inflation.

Under these pressures gold payments have been suspended and currencies "devalued." Foreign exchange quotations have fluctuated wildly and between wide extremes. These fluctuations have been made still worse because the postwar world faced the necessity of readjusting trade relationships. Countries and even larger areas that had been debtors had become creditors and vice versa. Germany had formerly been a creditor country upon a modest scale but, with sharply reduced resources, was ordered to pay vast sums in reparations, a task which, if performed, would have forced appalling readjustments in trade movements, with world-wide disaster as a consequence. These payments were not made and could not have been made, but the controversy that followed, with its resulting bitterness, has been among the

major causes of the economic confusion of the last twenty years. Of like nature were the postwar political debts between other countries.

This in turn affected foreign investments. Many had been made foolishly, but even prudent loans abroad could not have been serviced. Real, as distinct from nominal, payments of interest and repayment of principal sums as they fell due could be made only by an excess of exports from the debtor to the creditor areas and the receipt of an excess of imports over exports by the creditor areas. But such a change is difficult in the extreme. Debtors could accomplish it only by an enormous increase of exports, or by curtailing imports, or by both. In practice, they endeavored to increase their sales abroad and imposed barriers to imports. Creditors could accept payments due only by receiving an enlarged flow of imported goods or by restricting their exports sufficiently to give a resulting excess of imports. But their economies, as, for example, that of the United States, were geared to an excess of exports. A sudden adaptation, no matter how much called for by their new status as creditors, would have brought intolerable confusion and hardship. They, too, endeavored to increase or at least to maintain exports and raised barriers against imports. This meant higher protective tariffs and the establishment of import quotas. In many cases, clearing and compensation

arrangements were made. Bilateral agreements were entered into that provided for direct trade between the two countries concerned but with a sharp diminution of triangular trade and hence of foreign trade as a whole. Import boards, exchange control boards, and other machinery came into existence. Such were some of the basic forces that led to exchange fluctuations, suspension of gold payments, and devaluation of currencies.

Parallel with these international disturbances, there has been an acceleration of the tendency to enlarge governmental functions. Within each country the national economy has been increasingly consolidated, with the government assuming more responsibility. Some of the significance of this has already been pointed out. Large-scale private business has long wrestled with the problems raised by overhead costs and their allocation among numerous by-products. Now we deal more with national overhead costs and their allocation among thousands of products or by-products.

Dumping—the sale of products at lower prices in one market than in another, which is usually the sale abroad at a lower price than at home—is an old practice of private industry. Now, with large national economies, *e.g.*, that of Germany, assuming more complete responsibility for the welfare of private industry and taking more complete control, dumping, though not new in its

fundamental characteristics, is more formidable than before because of its size. The methods of Germany are condemned and in many of their aspects they are ruthless. Present German leadership may be and will be properly criticized for numerous excesses in the practice. Dumping as now practiced is disorganizing and destructive.

But merely to condemn it is futile. Even if Germany is its most flagrant practitioner, dumping on the new enlarged scale is with us. Our task is to find ways of adapting ourselves to it. If national governments accept the responsibilities everywhere being thrust upon them, they will more and more endeavor to stabilize the economies over which they have jurisdiction. Their controls over economic life will grow, not diminish. In their efforts to stabilize their internal economies, they will endeavor more and more to stabilize prices, to influence rates of interest, and to determine the direction of trade and investment. They cannot well do otherwise. They will often fail in their undertakings and their failures may often be more harmful than a complete refusal to assume responsibility. Yet there are as yet no signs of a reversal of the trend other than a few sporadic retreats which may be permanent but are probably temporary.

Another trend is profoundly important. The economy of the nineteenth century had as a leading

feature the industrial dominance of certain countries, notably Great Britain, with Germany and the United States growing in their competitive power. Their strength was due to their early development of industrialization. For a time Great Britain enjoyed the advantages of an early start and until the fourth quarter of the nineteenth century led both absolutely and relatively. After about 1870 the power of her competitors began to make itself felt. By the beginning of the twentieth century the pressures became so strong that there was a demand for "tariff reform." Though defeated at the time, it was later revived and, since the end of the World War, Great Britain has definitely adopted the practice of protection.

It is easy to allege, or perhaps it can be clearly proved, that Great Britain has lost more than she has gained by this shift, but the reasons for it were strong. Today some of her policies which are interpreted as political weaknesses are to be explained by the growth of industrialization in other parts of the world, and the resulting decline in many of her exports upon which she had relied. An outstanding illustration is the reduction in her exports of cotton piece goods. Cotton manufacturing has been expanded on a huge scale in Central Europe, in Asia, in the southern part of the United States, and in Latin America.

Other changes have come. The older type of empire is disintegrating.[1] The Western Powers are being forced to abandon their former positions of privilege, notably in Asia. In a frantic attempt to restore or extend economic power, numerous devices are being employed. One that was efficacious in the past has been the investment of funds by private individuals. In the face of heavy defaults and repudiations, which have included even those on loans to Germany and to Germans, the individual investor has become disillusioned and wary, at least for a time. But the serious political and economic collapse which would follow from a complete abandonment of foreign investment is resulting in loans by or through governments on an enlarged scale. Germany and Great Britain are leaders, both, for example, making loans to Turkey and each endeavoring to secure a favored position. Even the United States, through its Export-Import Bank, is joining in the movement.

To a growing extent the struggle for trade and investment abroad is between governments. The "democracies" hesitate to adopt in full the methods of the totalitarian states but are going part way. The contest is one which, in the long run, would presumably result in a victory over the totalitarian countries. There is a strength that

[1] See M. J. Bonn, "The Crumbling of Empire: The Disintegration of World Economy," London, 1938.

comes from the consolidation of resources in the pursuit of a national economic policy, but nothing can fully offset a lack of the fundamentals—*i.e.*, natural resources, a skilled labor force, and an abundance of capital that can be readily and effectively mobilized. Already the totalitarian methods are revealing their limitations. Italy lacks abundant resources and nothing can take their place. Efforts at expansion through colonial ventures succeed up to a point, but they are costly. Somewhere there is a breaking point. Germany's methods in Southeastern Europe and in Latin America are encountering increasing opposition. Political and economic absorption even in German-speaking Austria is not easy, and the extension of controls over the polyglot areas in the Balkans, with their intense and conflicting national ambitions, will be no easy task. Perhaps Hitler's recent assertion that Germany must "export or die" had some hidden meaning, but it is more true than perhaps even Hitler himself realized.

Strains are still growing, but the economic limitations of the totalitarian methods are increasingly apparent. There is always the possibility that a general war may occur before the conflicts can be resolved. Much as we may question the wisdom of Chamberlain's policy of appeasement, it is of interest at the moment to learn of the attempts at

economic compromise that were to have been made by a British delegation to Berlin until the collapse of Czechoslovakia in March, 1939, caused an alteration of plans. It may be even yet that the pressures on Germany are so strong and the dangers of long-run military defeat are so clear that some method of adjustment can be found.

Even thoughtful observers may find it hard to remain calm amid such turmoil. The perils are undoubtedly great and the possibilities of tragedy are clear. In the midst of a world-wide convulsion, patience and detachment are not easy. But one thing is certain. Counsels of despair and hasty decisions to risk everything in a trial of military strength will mean the sacrifice of much that has been developed through centuries of effort.